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Politics this week

Jun 29th 2006
From The Economist print edition

AFP

Israel launched its first big incursion with tanks and ground troops into the Gaza Strip since vacating it last summer, in the hope of forcing Palestinian militants to release an Israeli soldier they had abducted and to stop firing rockets into southern Israel. The Israeli prime minister, Ehud Olmert, then raised the stakes by having a clutch of Palestinian ministers in the Hamas government arrested, along with some 60 Hamas MPs. See article

Iraq's prime minister, Nuri al-Maliki, spelt out a "national reconciliation initiative", including a conditional amnesty for insurgents. At the same time, General George Casey, who commands the American forces in Iraq, is said to have mapped out, at George Bush's request, a timetable for drawing combat units down to a third of their present size by the end of next year. See article

The special Iraqi tribunal trying **Saddam Hussein** said that his second trial, for mass killings of Iraqi Kurds in the 1980s, would start on August 21st. His current trial, for killing 148 Shias in a village north of Baghdad, is expected to end within weeks.

A radical Islamist, Sheikh Hassan Dahir Aweys, became head of the legislative council that now controls most of southern **Somalia**. His appointment was criticised by the country's weak transitional government, as well as by America and Ethiopia: Sheikh Aweys led a Somali outfit that has been accused of links with al-Qaeda and terrorism in east Africa. See article

In what he described as his first meeting with journalists for more than 20 years, Joseph Kony**,** the fugitive leader of the **Ugandan** rebel group, the Lord's Resistance Army, said he was not guilty of the war crimes of which he is accused by the International Criminal Court at The Hague, and called for peace talks with Uganda's government.

A referendum on the state

Italy's voters overwhelmingly rejected a set of constitutional changes, including more devolution to regions, that had been passed by the previous government of Silvio Berlusconi. The centre-left government led by Romano Prodi was cock-a-hoop; Mr Berlusconi's centre-right opposition was in disarray. See article

AFP

The **French president**, Jacques Chirac, made a rare television appearance in which he tried to shore up the authority of Dominique de Villepin, his prime minister. Few French voters were impressed: the popularity ratings of the two men are near record lows.

Joschka Fischer, erstwhile leader of **Germany's** Green Party and foreign minister from 1998 to 2005, is to stand down from the German parliament. Mr Fischer plans to take up an appointment in international politics at America's Princeton University.

The **European Commission** proposed some new measures in the field of crime and policing, including abolition of the national veto over some legislation, and giving the European Court of Justice a role in policing cases. Britain and Germany are likely to oppose the plans.

The European Court of Human Rights turned down an appeal against **extradition** by three British bankers wanted by the United States on Enron-related fraud charges. The so-called “NatWest Three” will now be deported under a controversial treaty with Britain to stand trial in Texas.

Press-ganged

George Bush criticised as “disgraceful” the disclosure of a secret **surveillance** programme that tracks international banking transfers. Set up soon after the attacks of September 11th 2001, the programme was revealed by several newspapers last week. See article

America's surgeon-general called for a ban on smoking in public places after releasing a report on **passive smoking**. The study said there was “no risk-free level of exposure” to secondhand smoke, which can increase the risk of heart disease and lung cancer to non-smokers by up to 30%.

Norman Mineta said he was stepping down as transportation secretary. Mr Mineta is the only Democrat in the cabinet and his appointment in 2001 was viewed as an attempt by Mr Bush to reach out across the political divide—a strategy that seems to have been long since abandoned.

Fait accompli?

Peru's Congress ratified a free-trade agreement with the United States. But the vote drew protests from new opposition deputies, who will be sworn in with the recently elected president, Alan García, later this month. See article

Final polling in **Mexico's** presidential election predicted a tight contest on July 2nd, but nevertheless gave a slim lead to Andrés Manuel López Obrador, the left-of-centre former mayor of Mexico City. See article

Canada's Conservative government announced a series of military procurements, including new navy vessels and army helicopters, as part of its new defence strategy. See article

A friend in need

AP

Condoleezza Rice, the American secretary of state, made a brief visit to **Afghanistan** and vowed that the gains made by democracy there would not be wiped out. It was viewed as a show of support for the embattled president, Hamid Karzai.

Vietnam appointed a new prime minister, Nguyen Tan Dung, and a new president, Nguyen Minh Triet. The most powerful position, that of Communist Party secretary-general, is still filled by Nong Duc Manh.

Prosecutors in **Thailand** called for the break-up of the country's two main parties, the Thai Rak Thai party and the Democrats. The country's Constitutional Court will have the final say. See article

Taiwan's president, Chen Shui-bian, survived an attempt to remove him by the country's parliament. More than half, but less than the required two-thirds, of MPs voted to dismiss him

Opposition parties in **Japan** put more pressure on the governor of the central bank to resign for investing in a fund that has seen its manager arrested on charges of insider trading. Although he has not broken any of the Bank of Japan's rules, Toshihiko Fukui nevertheless disclosed his personal assets to parliament in an effort to halt the furore.

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Business this week

Jun 29th 2006
From The Economist print edition

After months of vigorous resistance, **Arcelor's** board finally succumbed to **Mittal Steel's** €25.6 billion ($32.2 billion) takeover offer. Mittal's bid for Arcelor, which operates steel plants in several European countries, had inflamed French economic nationalist sentiment, but Arcelor's shareholders became increasingly drawn to the deal; Guy Dollé, the firm's combative chief executive, is to step down. Severstal, a Russian steelmaker that acted as Arcelor's white knight by offering a separate merger, said it was exploring its options. See article

As metal prices continued to recover from their recent falls, the mining industry announced a huge deal. **Phelps Dodge** wants to buy **Inco** and **Falconbridge**, two Canadian-based nickel producers, for $40 billion (Inco must first complete its acquisition of Falconbridge). A copper miner in Arizona since the late 19th century, Phelps Dodge will become one of the world's biggest mining groups. See article

Not to be outdone by metals, the energy industry saw further big deals when **Anadarko Petroleum** made separate bids to buy **Kerr-McGee** (for $16.4 billion) and **Western Gas Resources** ($4.7 billion), two gas producers.

What a guy

Warren Buffett made the world's biggest-ever philanthropic donation by pledging to give away $37 billion, the bulk of which will go to the Bill & Melinda Gates Foundation. The investor said he hoped his generosity would spur other wealthy people to donate more to foundations. See article

After an auction that saw more twists and turns than one of its soaps, **Univision**, the United States' biggest Spanish-language broadcaster, accepted a $12.3 billion buy-out from a group of private-equity investors that includes Haim Saban, a media mogul. See article

Johnson & Johnson agreed to buy **Pfizer's** consumer-products division for $16.6 billion. The outfit, which includes brands such as Sudafed, is attractive because of the rising profits to be had from over-the-counter medicines.

General Motors and **Delphi**, which supplies the carmaker with parts, revealed that around one-third of both their blue-collar workers had chosen early retirement and severance packages. The take up in redundancies, higher than expected, will help each firm to restructure.

Born to be wild

DaimlerChrysler said it would start selling its minuscule two-seater cars in the United States from 2008. **Smart** cars are already established in many European urban markets and Daimler is betting that America's fading infatuation with gas-guzzling SUVs will be succeeded by fuel economy.

Investigators searched the Paris office of **EADS**, Airbus's parent company, as regulators looked into the sale of shares in March, before a further delay in the A380 was divulged, by a co-chief executive, Noël Forgeard. Mr Forgeard used an appearance before a French parliamentary committee to defend his position, but investors in EADS continued to call for his removal.

In another blow to the image of big oil, American regulators said they were investigating whether a unit of **BP** manipulated the price of propane in 2004 by buying and hoarding vast quantities of the fuel. See article

Consolidation in Europe's insurance industry continued apace, as Italy's **Generali** agreed to buy **Toro**, its smaller compatriot, for €3.9 billion ($4.8 billion).

Eurotunnel rejected an alternative plan, put forward by some of its bondholders, to the debt-restructuring agreement it signed in May. The group of creditors, led by Deutsche Bank, says the agreement fails to recognise the worth of their holdings.

Intel made two steps designed to claw back ground it has lost to Advanced Micro Devices, its arch-rival, unveiling a new chip for servers, which it said was more than twice as fast as previous models, and selling a unit that makes chips for mobile phones to **Marvell** for $600m.

The reliability of the computing systems used in **Japan's** financial markets was further called into question when a technical glitch caused trading in Japanese bonds to be briefly suspended. Problems with computers earlier this year disrupted trading on the Tokyo Stock Exchange.

Summery findings

Business confidence in Germany rose in June to its highest level since just after the country's reunification in 1991. With a separate survey showing that consumer confidence was at a five-year high, and the government reporting an increase in core inflation for June, markets speculated that the recovery in the euro area's biggest economy would hasten a rise in interest rates by the European Central Bank.

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Correction: the Red Cross

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Last week we said that the decision allowing Israel and Palestine to join the Red Cross was helped by a "change of symbol from the traditional red cross to a red square". The symbol, which represents a red crystal, is in addition to the red cross and red crescent, both of which remain Red Cross emblems. Sorry.

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The rich and charity

Billanthropy

Jun 29th 2006
From The Economist print edition

How to spend money and influence people

IF YOU are the world's second-richest man, the best person to look after $31 billion of your hard-won fortune is probably the only man on the planet who has proved better at making money than you. Armed with that insight, Warren Buffett, a Nebraskan investor who claims to have been “wired at birth to allocate capital”, this week allocated the biggest chunk of philanthropic capital in history.

What is more remarkable, Mr Buffett put ego aside and gave the money to an outfit bearing someone else's name. With the Nebraskan billions to add to $30 billion of their own, Bill and Melinda Gates will be in charge of a foundation the size of a multinational company such as Disney, Dell or Honda. Mr Buffett's splendid liberality, announced this week in *Fortune*, is noteworthy for more than its magnitude. His example to plutocrats everywhere amounts to an altruistic call to action, part of an attempt with Mr Gates to make philanthropy as much about the doing as about the donating.

Alms and the manager

People's urge to give and be seen giving is almost as universal as their urge to acquire and be seen acquiring. The great philanthropists, possessed of both impulses to an unusual degree, are a small, but vital, part of those sprawling attempts to do something. Hospitals, schools, churches, museums and charities carry out most of the work, which academics at Johns Hopkins University, in Baltimore, heroically estimated was worth $1.3 trillion, or 5% of GDP, in 35 countries they studied in the late 1990s. Private donations account for only about a tenth of charitable spending. Even in America, home of super-philanthropy, where suspicions of a large state run deep, charities receive most of their money from fees and government payments. But that tenth and the foundations, like the Gateses', that supply much of it matter beyond their size.

One reason for this is philosophical. To foreign observers, American capitalism looks ruthless. It creates great fortunes, and also great inequality. Yet there is an unwritten contract at its heart: that the winners shall use some of their wealth to compensate the losers. The great 19th-century capitalists, Carnegie and Rockefeller, took this view; and so, evidently, does Mr Buffett, who told a television interviewer that “a

market system has not worked in terms of poor people" and derided those made rich by inherited wealth as "members of the lucky-sperm club".

A second reason is practical. The great 19th-century philanthropists laid down their fortunes and set up their foundations in the days when profits were fat, taxes thin and labour weak. The end of the 20th century has seen a similar flowering of wealth thanks to a combination of rising asset prices; globalisation, which has increased the rewards for the best in their field; and technology, which has given scope to countless entrepreneurs. As a result, there are many more very rich people around than there were 20 years ago; and thus many more people thinking of doing some good to the world that has done so much good to them.

But it is not just the quantity, but also the quality, of their money that matters. Foundations are a source of discipline and innovation for charities. If foundations give wisely, they can influence the way charities spend the rest of their money. That is especially valuable when a generation of prosperous baby-boomers is preparing to give away billions.

Churlish as it may be to criticise those who set out to do good, many charities behave as if they were unaccountable. One study, led by Bill Bradley, a former senator and an adviser to McKinsey's non-profit practice, has found that they waste a lot of money. They squander cash on raising funds; they hoard it; they fail to oversee how efficiently they spend it. Better management, the study maintained, could save tens of billions of dollars in America alone.

Philanthropists should use their influence to make that happen. The Gates Foundation (see article) sets a good example. Rather like the venture capitalists behind the American software industry, Mr Gates is a venture philanthropist: he backs schemes, assesses them and dumps failures. This is a demanding job, which is why Mr Gates plans to go part-time at Microsoft—and why the best charities and foundations are not always those with the lowest administrative costs.

One secret is to specialise. Small grants scattered across deserving causes are likely to have less effect than concentrated efforts. Expertise helps foundations take calculated risks—as an entrepreneur might and as governments rarely do well—and achieve the economies of scale that make as much difference in charitable work as in any other sphere of life. The Rockefeller Foundation's bet on dwarf wheat and penicillin ensured that billions of people were fed and kept healthy. Mr Gates's focus on poor-country diseases increases the chances of making the breakthroughs in medicine and delivery systems necessary to beating those illnesses.

All is vanity

But foundations face two dangers. The first is that they are not always much better managed than the charities they back. Administrators come to like the perks and power of deciding who is deserving. With characteristic clarity, Mr Buffett has offered an answer to this. He is giving the bulk of his fortune to Mr Gates rather than to the foundations of his children and his late wife, which will receive smaller amounts. Mr Gates, he thinks, will make better use of the money. Mr Buffett told the rich that, instead of giving their wealth to "a bunch of old cronies", they should shop around for the best foundations.

The second danger lies in the vanity of philanthropists. They often like the notion that their foundations will live on after them, carrying their name down from generation unto generation. But, after the founder has died, foundations tend to become sclerotic and directionless—the fiefs of administrators who have lost sight of the original aims. So if you aim to be a truly philanthropic philanthropist, spend your money fast: do as much good as you can when you're alive, and let posterity go hang.

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Israel and Palestine

Try to be calm

Jun 29th 2006
From The Economist print edition

Amid a renewal of bloodshed and fears of worse, hope still flickers

AP

Get article background

THE television pictures are grimly familiar. Less than a year after Israeli forces and some 8,000 Jewish settlers vacated the Gaza Strip, the Israeli tanks are back. Palestinians are more wretched than ever, Israelis no less fearful. As *The Economist* went to press, the fate of a 19-year-old Israeli corporal, Gilad Shalit, whose abduction by Islamist militants was the immediate cause of the latest Israeli incursion, hung in the balance—especially after the Israelis dramatically upped the ante by arresting a clutch of ministers from the Palestinians' Hamas government and an array of Hamas MPs. And yet, amid the misery and tension, a few hopeful new signals are blinking.

The Israelis were bound to react harshly to the corporal's abduction. They also want to stop the rockets that rain down from Gaza into southern Israel. The prime minister, Ehud Olmert, fairly new to his job and promising further controversial withdrawals from the West Bank that Israel has occupied since 1967, believes he cannot afford to look weak; it is unthinkable that he could meet the militants' demands for the release of all Palestinian women and minors from Israeli prisons. Still, he should show restraint. So far he has sensibly held the tanks back from rolling deep into Gaza's seething urban districts and refugee camps. It is questionable whether the arrest of Hamas ministers will help. Indeed, it is doubtful whether Israel's standard heavy military reaction to Palestinian violence serves the interests of peace in the longer run. Nor is it very likely to effect the return of the hapless corporal, unharmed. For that, the mediation of foreign diplomats seems the better bet.

More to the point, it is becoming clearer that the international boycott of the Palestinians' Hamas government is not helping. A fractious Islamist government, bankrupt and unable to control its most extreme militants, is plainly ill-equipped to make peace, even if it wanted to. But nor is it likely to give way, any time soon, to a more effective alternative.

However, there are signs that Hamas, albeit grudgingly and with an array of tiresome ambiguities, is groping towards meeting the minimal requirements for Israel and the rest of the world to bring it in from the cold: recognition of Israel, an end to violence, and acceptance of previous agreements made by Yasser Arafat and his successor, Mahmoud Abbas. It is arguable whether a document signed this week by Hamas and Fatah, Arafat's secular movement that previously ran the show, does, even implicitly,

recognise Israel (see article). But it edges Hamas in the right direction. And the document calls for a Palestinian coalition government, which might conceivably offer a better chance of doing business with Israel. The outside world must patiently try to drag Hamas, whether it tries to govern alone or in tandem, towards moderation. It represents too many Palestinians to be squashed or ignored.

But Hamas must do a lot better itself. It currently speaks with at least four voices (and often more), most discordantly from Syria, which hosts its political head, Khaled Meshal, and more emolliently from the West Bank (as opposed to Gaza). It has endorsed acts of terror since it took office; it must, at the very least, enforce a ceasefire. It is unclear whether it wants to keep Mr Shalit as a bargaining chip or whether it even has the power to make his abductors free him. Holding or even killing him would set back the cause of peace still further—and benefit neither Hamas nor the Israeli government, nor the Israeli and Palestinian people. The consequences could even spark a third *intifada*, wreaking yet more misery all round.

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Mexico's presidential election

Change, please

Jun 29th 2006
From The Economist print edition

The worry in Mexico is not radicalism, but the lack of it

EVER since 1982, after its government's bankruptcy triggered a regional debt crisis, Mexico has seemed set on a course towards greater democracy, an open market economy and close relations with the United States. Two milestones have marked that journey. In 1994 the North American Free-Trade Agreement (NAFTA) integrated Mexico's economy with those of the United States and Canada. Then in 2000 the election of Vicente Fox marked the end of seven decades of rule by the Institutional Revolutionary Party (PRI). Yet now Mexico would appear to face a fork in its chosen road. In its presidential election on July 2nd, the ostensible choice is between more of Mr Fox's policies and a return to a more inward-looking path—one that is perhaps less democratic.

Much therefore looks to be at stake in Mexico this weekend. For its neighbour across the Rio Grande, too, this election matters more than any of the many others in Latin America this year. Mexico is not just the United States' main purveyor of illegal immigrants and of cocaine; it is America's second-biggest oil supplier and third-biggest trading partner.

Mr Fox deserves much credit both for bringing democracy and more open government and for preserving financial stability. But the convergence NAFTA promised has not happened. The economy has dawdled along at 2.2% per year. Mexico is creating barely half the 1m new jobs a year needed to keep its people employed at home. Rigidities in its economy are largely to blame. At the heart of these lie monopolies, private and public. The market reforms carried out under the last two PRI presidents left energy in state hands and turned telecoms into a scandalous private near-monopoly which has helped Carlos Slim, the owner of Telmex, to become the world's third-richest man (and one who has yet to match the philanthropic largesse of the two richer than him). Over-regulated labour markets discourage job-creation. The state fails to collect enough taxes to provide the education and transport systems Mexico needs if it is to make the most of NAFTA.

Mr Fox tried to tackle some of these problems (though notably not Telmex). He failed, partly because of his own shortcomings (see article). But there is a deeper reason for his failure. Mexico has abandoned the PRI system of an omnipotent presidency and embraced democracy, but has failed to adopt new rules to ensure that it works. The question thus facing Mexicans is who is best placed to tackle the unfinished tasks of creating more economic competition, a more effective state and a more robust democracy. The race has come down to two men: Andrés Manuel López Obrador, the left-of-centre former mayor of Mexico City, has the slimmest of leads in most opinion polls over Felipe Calderón, a former energy minister from Mr Fox's conservative National Action Party.

The danger of standing still

The powerful case for Mr Calderón is that he favours many of the reforms that Mexico needs. He also looks to be a politician of more substance than Mr Fox. On the other hand, he is unlikely to be a robust champion of the public interest against the businessmen who have ploughed money into his campaign. Unlike Mr Fox, he is a social conservative, with reactionary views on matters such as abortion. And although he has sensibly called for a coalition government, his negative campaign means he might be hard-pressed to find partners.

There are reasons why a switch to the left might be good for Mexico. Mr Fox and his predecessors have wrongly assumed that what is good for favoured individual capitalists is good for capitalism. It is hard to disagree when Mr López Obrador rails against such privilege, or against the inequity in NAFTA that requires Mexico to allow tariff-free entry to heavily subsidised American maize.

Yet there are big doubts about Mr López Obrador. Is he really a modern social democrat like those who govern Chile, Uruguay and Brazil? His political origins lie in the most populist strand of the PRI. He paints himself as a messianic saviour of the poor, but would he help them much? As mayor, he stressed social policies, but ones aimed at political impact more than effectiveness. He has almost no knowledge of, nor apparent interest in, the outside world. He has shown a certain contempt for the rule of law and for Mexico's handful of modern democratic institutions, such as the Supreme Court, the independent central bank and the electoral authority.

These are all reasons to be concerned about Mr López Obrador. But they do not make him a Mexican version of Hugo Chávez, Venezuela's anti-American president. Nor is Mexico Venezuela. Its people are beginning to feel the benefits of the route the country has followed over the past quarter of a century, and its ties with the United States are too strong to be lightly cast off. The real worry, thus, is not that Mr Fox's successor will veer too sharply off the established path. It is that he won't. An overhaul of Congress, the federal system and the police, for starters, and reforms of competition policy, energy, the labour market and taxes would help embed democracy and get the economy moving. In that sense, Mexico needs a radical for president.

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Regulating hedge funds

The wilder side of finance

Jun 29th 2006
From The Economist print edition

Faced with the growing clout of hedge funds, regulators should focus on principles, not rules

NIMBLENESS and creativity are qualities rarely ascribed either to America's financial regulators or to Congress. Perhaps that is one reason why both groups are fumbling over how to deal with hedge funds, which typically exhibit both in abundance. These lightly regulated pools of private capital employ an array of complex trades, frequently shifting strategies and, in theory, generating above-average returns. They are growing fast: there are now more than 8,000 hedge funds, managing over $1 trillion in capital.

Such dynamism seemed remote indeed on June 23rd, when a federal appeals-court panel in Washington, DC, ruled that the Securities and Exchange Commission (SEC) had clumsily passed an “arbitrary” rule in an effort to bring hedge funds under its scrutiny (see article). A few days later Congress held (yet more) hearings on hedge funds amid renewed calls for oversight of the industry. The court's decision on the SEC is as welcome as Congress's attentions are to be regretted.

The argument for more regulation is twofold. First, nowadays it is not only a few aficionados of the investment world who are exposed to them but a growing number of people—either directly, if they are rich enough, or through their pension funds. Second, some hedge funds are so large that a big one's failure could threaten the financial system.

But if people don't want to accept the downside of risk, they shouldn't invest in risky businesses. As to pension funds, managers and trustees should look at the risks involved in these investments carefully: hedge funds are not for everybody. It is the second argument that makes the stronger case for regulation: hedge funds' power means the public has an interest in regulators keeping an eye on them.

However, there are various ways of doing that. America tends to take a rules-based approach to financial regulation. It tells firms what they can and cannot do. Britain, by contrast, tends to set broad principles: it checks out hedge funds (just like mutual funds) before they set up in business, then requires them, for instance, to operate with “integrity”. In a world as fast-moving as finance, a principles-based system allows regulators a flexibility that a rules-based approach does not.

The regulation that the court rejected is a case in point. It called for hedge funds with more than 15 American investors to register with the SEC by February 1st this year and undergo occasional checks. Although smaller American funds and those with investment “lock-up” periods of more than two years were exempt, foreign-based hedge funds with American investors were not. This not only rankled with

foreign fund managers, who had already been cleared by, say, Britain's Financial Services Authority, but also had the perverse effect of leading some funds on both sides of the Atlantic to extend their investment lock-up requirements, arguably to the detriment of investors.

Shackling funds with rules dreamt up after a bunch of Wall Street scandals could stifle a vibrant industry that has helped spread portfolio risk. Regulators need not rules but intelligence. The current system, which allows regulators to supervise hedge funds through prime brokers, is a good foundation. Prime brokers, typically arms of (regulated) investment banks, provide hedge funds with a range of services, including securities lending, leveraged-trade transactions, and cash management. They are close to the market, so they can keep regulators informed; and, because their money is at risk, have an interest in keeping abreast of what hedge funds are doing. A few high-profile fund blow-ups have already prompted prime brokers to tighten their practices. America's regulators would do best to rely on the self-interest of, and intelligence from, prime brokers; and to move towards the British approach of abjuring detailed rules and relying on principles.

Whatever happens, some hedge funds are bound to go bust. That's healthy, and does not argue for more regulation. Hedge funds are one of the most dynamic forces in finance. They should generally be left alone.

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French business

Patriot games

Jun 29th 2006
From The Economist print edition

A bad few weeks for those who would defend the national glory of French industry

AFP

LAST JUNE Dominique de Villepin was a hero. The dashing French prime minister had made a strong start in office. The economy was showing signs of life and unemployment was in retreat. French companies were rampant. As French businessmen went on a buying spree abroad, politicians embraced an industrial Maginot line they called “economic patriotism”. Mr de Villepin was patriot-in-chief.

A year later, France's new protectionism is looking ragged, as one grand design after another has been thwarted. In “strategic” industries such as steel, aerospace and energy, the news for the patriots has been bad. Intervention is not dead, of course; but, as the past few weeks have shown, international capital markets are restricting its scope.

The mishaps started in January when France's politicians, including Mr de Villepin, manned the barricades against Mittal Steel's hostile bid for Arcelor, a big employer in France. On June 25th, after one of the most acrimonious battles in European takeover history, Arcelor heeded its shareholders' wishes and succumbed to Mittal's advances (see article).

In February Mr de Villepin brokered a merger of Gaz de France, the state-controlled gas utility, and Suez, a private water-and-power company, to prevent a hostile bid for Suez from Italy's ENEL. Italian bankers and politicians came out so strongly in support of ENEL that it is now in a stronger position to bid for Suez. Last week Mr de Villepin discovered that not even his own ranks fully support the energy project any more and postponed it until autumn. This means that it may not happen at all.

Most recently Mr de Villepin has struggled to contain the crisis over the delay of up to seven months in deliveries of Airbus's huge A380 passenger jet. He dispatched Thierry Breton, his finance minister, to talk to other big shareholders. Mr Breton has repeatedly promised to broker a neat fix, but so far a solution has eluded him.

Defenders of state intervention argue that without it France would not have world-beaters in business, such as the two leading luxury-goods groups (LVMH and PPR), one of the biggest insurers (AXA), as well as leaders in cosmetics (L'Oréal) and food (Danone). Mittal won because of a fragmented shareholder base interested only in making a quick buck, fumes Jean-Pierre Chevènement, a former socialist

government minister. He blames Europe's single market for the triumph of globalised capital, the dictatorship of cash and the contempt it shows for France's interests.

Moreover, attempts to keep the markets and foreigners at bay are by no means only a French phenomenon. The Spanish government is trying to block a takeover of Endesa, a big electricity company, by Germany's E.ON. The Italian government is meddling with the plan of Autostrade and Abertis of Spain to form the world's largest toll-highway-operator.

Deathly embrace

But there is a problem with the argument that state support produces world-beating companies. Successful French firms, such as L'Oréal and AXA, tend to be the ones the state has left alone. The companies it backed were the ones that eventually needed rescuing: Alstom, an engineering group; Bull, a computer firm; Air France, the national airline; Crédit Lyonnais, a big bank. A state guarantee allows managers to run companies irresponsibly without fear of being disciplined by shareholders or banks.

Moreover, intervention is under attack from the twin forces of regulators and the market. In the past, defensive manoeuvres often went unpunished. As investment has gradually spread across European borders, governments have come under fire from foreign shareholders, enlightened businessmen at home and the European Commission in Brussels.

The tide of international capital is not about to retreat. Most shares in listed companies in France are already owned by foreign (largely American and British) investors. Fat corporate profits are paying for mergers and acquisitions, which bring even more foreign capital into France. That money will not kowtow to Mr de Villepin or anyone else in the French government. It is a hard time to be an economic patriot.

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On nuclear weapons, Papua New Guinea, skyscrapers, aircraft emissions, Guantánamo, football, muslim futures

Jun 29th 2006
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Banning the bomb

SIR – I enjoyed your report on nuclear disarmament which highlighted the need to move purposefully toward the elimination of nuclear weapons ("The long, long half-life", June 10th). Disarmament was one of the main reasons I helped start the Nuclear Threat Initiative with former United States senator Sam Nunn. While the NTI is primarily focused on reducing nuclear dangers, including many pointed out in your report, it has become increasingly clear to me, personally, that the only answer to nuclear proliferation is total worldwide nuclear disarmament. I understand that this will be exceedingly difficult and complicated, but it must be done if humanity is going to survive. The sooner we do it, the safer we will be. I am certain this is possible.

Ted Turner
Atlanta

SIR – You pointed out how the world's nuclear powers take part in a sort of nuclear exceptionalism. But as the cold war showed us, nuclear weapons are feared even by those countries that threaten to use them in an offensive first strike. While stockpiles in the thousands are obviously overkill, I would rather not go back to the days of large-scale symmetrical warfare, the kind of which destroys continents and nations. This is not to say that the outright abolition and destruction of nuclear arms would necessarily lead to global warfare, but merely to state that had it not been for nuclear weapons the cold war may well have been a few degrees warmer.

Zachary Peterson
Bethesda, Maryland

The real PNG

SIR – I have never seen so many unfair accusations packed into one short sentence as, "PNG is vast, under-developed, coup-ridden and stricken by AIDS and corruption" ("Policing the Pacific", June 3rd). Papua New Guinea does not have the sort of poverty seen in some parts of the developing world and spending on infrastructure has increased; it is a democracy and never had a coup; its adult AIDS prevalence rate is 0.6%, exactly the same as the United States; and although PNG has had its problems with corruption in the past, reforms are under way to tackle this. Not everyone is perfect, but give PNG a bit more credit.

Taavi Davies
London

Now you mention id

SIR – In the same edition of your much respected but sometimes deliciously irreverent publication, you talk about psychoanalysing England through football ("Between games", June 3rd) and about people doing "unmentionable things with dogs" (Lexington, June 3rd). But although you devote three whole pages to them, you don't mention a thing about the obvious psychoanalytical reason behind the erection of skyscrapers ("Better than flying", June 3rd).

Jonathan Miller
London

Blue-sky thinking

SIR – Your report on aviation refers to proposals for tackling its impact on climate change that I have authored for the European Parliament and that are to be voted on soon ("The sky's the limit", June 10th). You rightly conclude that, given the limits of technical and operating fixes, taxes and trading are essential—but that simply adding aviation to the European Union's existing emissions-trading scheme (ETS) is not the solution. With unrestrained access to the general carbon market, the industry will just buy up from other sectors the right to continue its growth unchecked. Its high appetite for permits will also strain the existing system, risking a loosening of the overall cap. And without parallel measures to cover aviation's non-CO_2 emissions—at least twice as damaging as its CO_2 emissions alone—its purchase of the right to emit a tonne of CO_2 from a ground source will be a net disbenefit to the environment. An aviation-only ETS in which the sector pays for its initial allocations, with appropriate parallel measures to address non-CO_2 impacts, is the only way trading can genuinely reduce the climate impacts of aviation.

Caroline Lucas, MEP
Rapporteur, climate impact of aviation
European Parliament
Brussels

SIR – The fuel that long-haul aircraft burn is not "high-octane". Jet fuel is kerosene, so it does not have an octane rating but a cetane rating.

Josh Brand
Robinson, Illinois

SIR – Aircraft emissions, by your own estimate, account for only 3% of carbon emissions ("The dirty sky", June 10th). So why the fuss? You betray the real reason: elitist contempt for the desires of ordinary people to travel. As a veteran of many such debauched trips as "stag-nights in Prague" and "spring breaks in Jamaica", which low-fare airlines have made possible, I can assure you that cheap airfares are highly valued by working folks such as myself. If you want to make polluters pay, then start with a $10,000 surcharge on the first-class tickets of rich, environmentally aware snobs who profess such pain over a few contrails.

Vincent Abruzzio
Buffalo, New York

Terror trials

SIR – Your obituary of Yasser Talal al-Zahrani, one of three jihadists who committed suicide at Guantánamo, concludes that the prison camp "remains wrong" (June 17th). But you do not offer what would be right. Would it be right to treat these fanatics as POWs? Their cause is illegitimate and they do not answer to any national leader or respect the rules of war. So ought they, as foreign nationals who have targeted American innocents and interests abroad, be dealt with as ordinary criminal suspects and given the protections of the constitution? The costs of prosecuting and defending these zealots would be very expensive and the case of Zacarias Moussaoui exposed how impractical it is to refer to the ordinary rules on evidence in trials of international terrorists. The situation is frustrating for all involved. Yet that seems appropriate for the war that these men have waged against civilisation.

Richard Firkin
Oakland, California

They think it's all over

SIR – Football does not need the Americans (Letters, June 24th). The rest of the world enjoys its movement, beauty and lack of interruptions. Leave American men to their boring imitation of rugby. Their women know better.

Charles Newman
Billericay, Essex

SIR – I'm glad to see that football is still the sport that raises the most passions, even among those who hate it.

Julien Méli
Paris

SIR – One reason for the disparity between Americans' and Europeans' enthusiasm for the game is nationalism. A thousand-plus years of Europeans kicking the crap out of each other has manifested itself in modern times on the football field. This is something that the average American fails to grasp, but which is certainly palpable to a spectator at European matches.

Eric Darooge
Petoskey, Michigan

ONLINE ARTICLES

The following correspondence refers to articles published only online

Muslim futures

SIR - I am disappointed that you give such credibility to the views on Islam of Ayaan Hirsi Ali ("Muslim futures", June 20th, Economist.com). Tariq Ramadan is a respected Muslim scholar and writer who has contributed much to the debate on the future of Muslims in the West. Ms Hirsi Ali has admitted lying about her past. She left the Netherlands in disgrace after a successful career as a professional Islam-basher to further her ignominious career at the American Enterprise Institute, a radical right-wing think-tank.

Mr Ramadan addresses Muslims directly and seeks to remedy the radicalism that has affected some of the more disenfranchised elements of the European Muslim diaspora; Ms Hirsi Ali neither speaks to Muslims nor does she wish to change things. She should be described for what she is—a fraud, not a martyr.

Ahmad Tarabishy
Cleveland, Ohio

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Mexico's election

Six years of refried beans, and little confidence of better to come

Jun 29th 2006 | MEXICO CITY
From The Economist print edition

Mexico's next president must improve on Vicente Fox's mixed record

AP

PRESIDENTIAL elections take place in Mexico only once every six years, and for most of the 20th century, until 2000, the outcome was never in doubt: the Institutional Revolutionary Party, known as the PRI, ruled supreme. Then an opposition man, Vicente Fox, of the National Action Party (PAN), wrested control. Now his time is up; he cannot run again. What is to be made of his record, and of the promises of his would-be successors in this still unfamiliar democratic landscape?

One answer may be found in Tepito market, just north of Mexico City's centre. At first sight, the vista seems to have no end. Stall after stall after stall, each selling almost the same products—knock-off clothes and bootleg DVDs, electronic gadgets of all sorts. Tepito well represents much of the country at large. It is chaotic and lawless, yet also vibrant. Police loiter idly. Regulations are ignored. Taxes go unpaid. The idea of efficiency is a joke. Yet it works, just. There would not, after all, be much demand for DVDs if people did not own the equipment to play them.

Tepito's most telling characteristic, though, is its complaisant constancy. Even as technology changes the products sold there, the place itself has remained the same, a maze where little is legal and almost anything obtainable—if you know the right people. All this is made possible by the vendors' cosily corrupt relations with the city government, which allows Tepito to operate in return for regular payments and political loyalty.

That same relationship is pervasive throughout Mexico, and so is the inertia it fosters. Despite an air of optimism when he was elected six years ago, Mr Fox has not lived up to his promise. His victory completed a slow transition to democracy, but the fruits of that democracy have proved elusive. In many ways Mexico is freer than ever before. For the first time in decades, barring a last-minute jolt, a presidential term will have passed without an economic crisis. Social programmes have reduced extreme poverty, and the government has slowly become more open.

But much remains unchanged. Mr Fox has failed to tackle vested interests effectively or to make the other reforms that Mexico so sorely needs. Antiquated unions remain powerful, as do a few vastly rich

businessmen. Emigration to the United States, both legal and illegal, has increased, draining the country of talent. The trade in drugs, and the criminality it brings, have also grown. And, despite the advance of democracy, Mr Fox has sometimes imitated his authoritarian predecessors. He spent a year supporting legal manoeuvres designed to bar Andrés Manuel López Obrador, then the mayor of Mexico City, from running for president. That backfired. The election has developed into a battle between Mr López Obrador and Felipe Calderón, the PAN's candidate.

Mr López Obrador overcame Mr Fox's attempt to bar him, and has been the front-runner for much of the campaign. His populism goes down well with many Mexicans. In Tepito, the only political posters are for him and his allies in the congressional and other elections also taking place on July 2nd. This group is called For Everyone's Good, a coalition of left-wing parties led by the centre-left Party of the Democratic Revolution (PRD).

After briefly falling behind Mr Calderón, Mr López Obrador regained a slight lead in the last opinion surveys before polling day (polls are banned for ten days before the vote). But Mr Calderón has run a strong campaign, and the race is tight. Roberto Madrazo, the candidate of the PRI, is running a distant third.

Mr Calderón tries to paint the choice as one between modernity and an old-fashioned, regressive leftism. Mr López Obrador, for his part, says the choice is between a continuation of policies that reward vested interests and those that would “for the good of all, put the poor first”. Whoever wins will inherit a country, on December 1st, when Mr Fox formally steps down, with a pressing agenda spanning social, economic and political issues.

For a taste of these, note that Mexico is home to Carlos Slim, reputedly the world's third-richest man. He owns Telmex, which has a monopoly on fixed telephones, and Telcel, which controls the vast majority of the mobile-phone industry. No wonder Mexico has some of the highest telecoms costs in the world, driven by Mr Slim. But Mexico also has authoritarian unions, which have brought little benefit to their members while preventing a reform of the labour law that might have allowed more people to escape a life of hawking or scratching the soil. Half the workforce labours in this informal sector.

Both the main candidates agree that Mexican society is too unequal. Their disagreement is about means. Both are religious, and fairly conservatively so, although neither exploits his religious beliefs in the campaign. Mr Calderón, however, as the son of one of the founders of the PAN, is the heir to a mantle of right-wing Catholicism. Unlike Mr Fox, who came to the PAN as an outsider (an advantage in the 2000 election), Mr Calderón is seen by some as the pretty face of a reactionary right wing.

No sign of revolution

His message, though, is a mainstream one. After growing up in Morelia, a colonial city west of Mexico City, Mr Calderón went to law school, and then to Harvard for a master's degree. At 43, he is nine years younger than Mr López Obrador, and his campaign team is also known for its youth. Pollsters say his age may work as much against him as for him: some see it as inexperience rather than vigour. He served briefly as energy minister in Mr Fox's government before being asked to resign because of his presidential ambitions. But Mr Calderón has used his distant relations with Mr Fox skilfully, to take the credit for the president's successes but not the blame for his failures—or his scandals, such as those involving his stepsons.

Reuters

Mr Calderón is often cast as an educated technocrat, Mr López Obrador as a plebeian populist, and a “charisma gap” is said to exist between them. But in the only debate in which both have taken part, Mr Calderón was the abler speaker. Mr López Obrador, the son of a shopkeeper in the southern state of Tabasco, does have a greater ability to connect with poor Mexicans, but he owes this more to what he says than to how he says it.

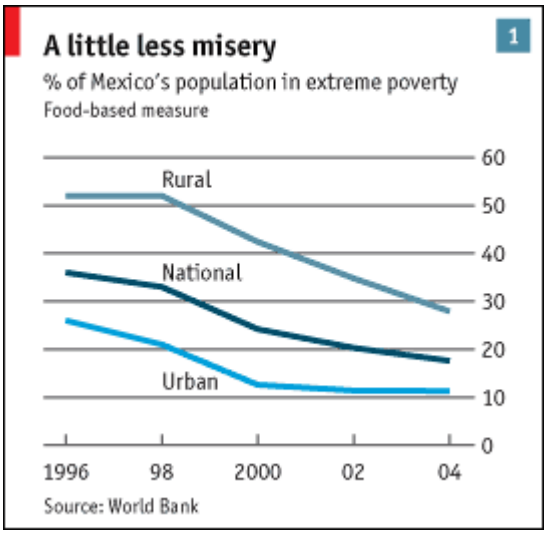
Mr López Obrador's point is that the system confers privilege on the few at the expense of the many. He vows to change this, but not the free-market system, and he also promises economic stability. His economic advisers are pretty conventional. It is

perhaps fairer to compare him to a trust-busting Theodore Roosevelt than to a Venezuelan or Bolivian revolutionary.

López Obrador claims experience

Yet the fears of Mr López Obrador's strong-headedness are legitimate. As mayor of Mexico City, he did an adequate job, but reacted badly to criticism. Unlike Mr Calderón, he has barely travelled outside Mexico, and shows little interest in foreign policy. His justification—that the best foreign policy is a good domestic policy—has some force, since the solution to Mexico's migration problem does indeed lie in economic growth at home. Similarly, his persecution complex cannot be simply dismissed out of hand, since Mr Fox did indeed lead a conspiracy to prevent him from running for president. Even the criticisms of his role in leading protests after losing an election for governor in his native Tabasco in 1994 are a bit unjust: it is widely accepted that the election was indeed fraudulent.

The winner of that election was Roberto Madrazo. He then became head of the PRI. But what worked in Tabasco in 1994 will not work for national elections today, so Mr Madrazo was rebranded this year as a smiley-faced “Roberto”, who promised, “Roberto can do it.” The whiff of corruption which attends his party, however, helps the other candidates. If, as expected, Mr Madrazo fares poorly in the election, the future of the PRI as a national political force will be in doubt.



By contrast, the PAN, whether it likes it or not, will be partly judged on the record of Mr Fox. The first of his two main successes is a reduction in extreme poverty (see chart 1), which has mainly been achieved by Oportunidades, a cash-transfer programme aimed originally at the rural poor, and now at their urban counterparts too—nearly a quarter of Mexico's population in all. The programme, started by Ernesto Zedillo, Mr Fox's predecessor, works by giving money to female heads of household on condition that their children go to school and that their family goes for regular health checks.

A scratchy record

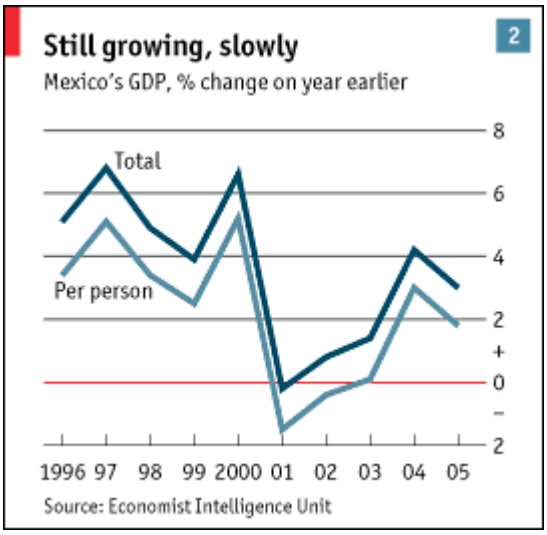
Its critics say that, since the cash transfers are small, it merely pushes people over a poverty line without fundamentally changing their lives, and that it does not reach the very poorest, who live in remote areas without schools and clinics. Even so, it is lauded by international organisations. And, though the administration of the programme has been avowedly apolitical, it has certainly helped the PAN's, and thus Mr Calderón's, standing with the poor.

Mr Fox's second success is the creation of a federal “transparency institute” that attempts to assure public access to government information. The institute is not autonomous, its budget is vulnerable to any government cuts and its remit extends only to the executive branch of the federal government. Yet it is a step forward, which has already helped to change Mexico's political culture.

The true extent of Mr Fox's successes will take time to emerge. Unfortunately, the failures are already apparent. Chief among them is the lack of sustained economic growth. The GDP figures for the first quarter of 2006 have been strong, and some analysts argue that those for past years are understated. But the growth of income per person has been disappointing (see chart 2).

At the least, however, Mr Fox has not led the country into crisis. Much credit is given to Francisco Gil Díaz, his finance minister, and to Guillermo Ortiz, the head of the Bank of Mexico. Inflation has been kept under control; indeed, in 2005 it was lower in Mexico than in the United States. And although government debt still stands at 45% of GDP, it has been

restructured to be more long-term and denominated in pesos, not dollars.



All this is fine, but hardly dazzling. So why has Mr Fox enjoyed consistently high popularity ratings—over 60% for almost his entire term? The answer is that he has maintained his popularity by going on a perpetual campaign. On many weekday mornings, police shut down the entrances to the Viaducto—one of Mexico City's main east-west highways—to smooth his path to the airport. The campaign then continues as the presidential plane hopscotches about the country, met by a fleet of helicopters which take him to start the day's activities—unveiling a plaque, opening a school, commissioning a refinery.

He is almost always met by adulatory crowds. But the incessant campaigning has had a cost: the task of running the country. In particular, Mr Fox has tended to delegate negotiations with Congress to lesser functionaries. Since his party has lacked a majority in Congress, this has meant that a series of well-designed reforms—of the labour laws, the energy industry, the tax code—were dead on arrival.

Hardly oil-fired

Perhaps the most pressing task is energy reform. Mexico is the fifth-largest oil producer in the world, and oil and gas account for 15% of its exports and 9% of GDP. Pemex, the state petroleum monopoly, had record revenues in 2005, but still lost money. This was because it is the government's milch-cow, providing over a third of the treasury's revenues. From 2001 to 2004, the company's tax payments were greater than its operating income.

This high tax burden, combined with the inefficiencies imposed by a powerful union (which fills five of the 11 seats on Pemex's board of directors), means that the company cannot act as an engine of economic growth. Luis Ramírez Corzo, Pemex's head, says that it has at least 30,000 unnecessary employees. The company is so inefficient that Mexico has to import 19% of its refined petroleum products.

Moreover, since the government uses the extra oil revenue on current spending, rather than investment in exploration or contributions to a fund for the day when prices fall, Mexico is vulnerable to a drop in the price of oil. The folly of Pemex's heavy burden is that nobody else pays much in taxes; non-oil taxes account for only 12-14% of GDP. If Mexico is to use the high oil price to fire growth, it must start taxing Pemex less and others a bit more.

Other sorts of infrastructure besides oil need investment, as the main candidates acknowledge, but big projects are bedevilled in Mexico by the "*sexenio* mentality", the rush to get things done during the six-year presidential term. This is caused by the politicisation of many government activities, which encourages six-year, but not long-term, planning.

The anti-drug campaign is seen by some as a case in point. Jorge Chabat, of CIDE, a Mexico City university, says, for instance, that the national crime database started by Mr Zedillo's government "died halfway" after Mr Fox came to power. The Fox administration could claim a victory in 2003 when Osiel Cardenas, the head of one of Mexico's two big drug groups, was arrested. But Mr Fox had no clear strategy, and the ensuing power vacuum has led to an all-out fight between it and the other big group. With no coherent plan, just going after the groups' leaders was enough to win headlines but not lasting results.

AFP

Moreover, the justice system—the police, the courts, the jails—remains a disaster, according to a recent report by Human Rights Watch. This New York lobby-group praised Mr Fox's plan to improve the system, but, as so often with Mr Fox's ideas, good intentions foundered in Congress. So torture is still systematically used by the police to obtain confessions, just as pre-trial detention remains far too common. And though Mr Fox might have imposed stronger controls on the police without new legislation, he has failed to do so.

In fairness, some of the blame goes to Mexico's federal system: the worst outrages, such the mass rape of prisoners held after a riot in San Salvador Atenco, outside Mexico City, in May, are said to have been committed by state police.

Fortunately, such incidents affect few people, which is why the economy has been the central issue of the campaign. The biggest restraint on Mexico's economy, says Isabel Guerrero of the World Bank, is the burden of public and private monopolies. So the dilemma facing the next president is how to break the monopolies' power without destabilising the country. The fear attached to Mr Calderón is that he would be more beholden to vested interests, and might continue on Mr Fox's path of sluggish growth. The fear with Mr López Obrador is that he might attack the interest-groups, but at the cost of political or economic stability.

Calderón offers the vigour of youth

Fingers crossed for calm

For now, though, all eyes are on the election itself. Under the PRI, Mexico had a long tradition of electoral fraud which in turn encouraged losers to take to the streets. Since 1996 elections have been overseen by an independent institute. In 2000, when Mr Fox won by a clear margin, it acquitted itself well. This time, if the result is narrow, its authority may be tested. Some Mexicans fear that, if he were declared the loser, Mr López Obrador might urge his followers to take to the streets in an attempt to annul the election. He has, however, said he will respect the result. By contrast, the risk of long-term instability if the government fails to take on interest-groups is real. If economic growth continues to be hamstrung by business and unions alike, social tensions will only intensify.

Congress is likely to be split roughly into thirds again after the elections, so Mexico's next president may face cohabitational difficulties similar to Mr Fox's. Mr Calderón says he would form a coalition government, if necessary. If Mr López Obrador wins, he may find some PRI congressmen to support him. Most of the PRD's leaders, after all, were in the PRI.

In Tepito, though, little is likely to have changed six years from now. The television sets and DVDs will be high-definition, but the chaos will remain. Sadly, none of the candidates appears to have the capacity or the will to change the complaisant constancy. Yet either of the two front-runners might prove more effective than Mr Fox. It helps that expectations for neither of them are as high as they were for Mr Fox in 2000. Perhaps it will be easier to succeed in an era of pessimism than it was in the optimism of Mr Fox's historic victory.

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The Supreme Court

Modesty and majesty

Jun 29th 2006 | WASHINGTON, DC
From The Economist print edition

AFP

A decision curbing the president's war powers is typical of the new court. George Bush's two appointees, Samuel Alito and John Roberts, judge firmly but cautiously

THE judges slapped the president this week. On June 29th, by five votes to three, the Supreme Court ruled that the special military tribunals that George Bush was hoping to use to try suspected foreign terrorists are illegal under both military law and the Geneva Convention. This trimmed one of the key powers that Mr Bush was claiming in order to prosecute the war on terrorism. The ruling also appeared to forbid some of the more extreme interrogation techniques used on al-Qaeda supporters. The government may now have to devise new ways to deal with “unlawful enemy combatants”, as it calls those caught fighting against America without wearing uniforms.

This will be seen as a huge setback for Mr Bush. But the judgment was narrower than the headlines suggest. Salim Ahmed Hamdan, Osama bin Laden's former driver, who was suing for habeas corpus, will not suddenly be released. The court made it clear that it did not question the government's right to hold him “for the duration of active hostilities”.

Nor does the ruling mean that the detention camp at Guantánamo Bay will immediately be closed, although Mr Bush had previously indicated that it would help him determine its fate. The 450 men currently held there, of whom only ten have been charged, remain in limbo until the administration figures out how it can legally try them, or until they are released.

The new chief justice, John Roberts, recused himself from the case, since he sat on an appeals court that heard it last year. But the ruling was typical of the court under his leadership. It blocked the executive from doing what was clearly unlawful, but otherwise sought to interfere as little as possible. This modest approach to judging is exactly what Mr Roberts promised when he was appointed last year.

Some judges, when elevated to the Supreme Court, have taken it as licence to act as philosopher-kings, laying down the kind of enlightened laws that the oafs in Congress ought to have passed but did not. Others have sought to undo the work of the philosopher-kings by overturning every ruling not solidly supported by the words of the constitution, as they were understood by the Founding Fathers.

Mr Roberts appears to believe that the first group, known as “activist judges”, are usurping powers that belong to elected legislators. He sympathises more with the second group, the “originalists”, but fears that too rigid an application of their principles would be hugely disruptive, since it would involve revisiting countless issues long assumed settled, from abortion rights to the legality of the welfare state.

The new chief justice offers instead a cautious, incremental approach. Rather than issuing sweeping commandments from the bench, judges should decide cases on the narrowest possible grounds. “If it is not necessary to decide more to dispose of a case, in my view it is necessary not to decide more,” he told an audience of law students in May.

This approach should make the law less subject to sudden, dramatic changes. That is a boon for anyone who likes to plan for the future. It ought also to reassure those who fear that *Roe v Wade*, the 1973 Supreme Court ruling that made abortion legal in every state, is on the verge of being overturned. That seems unlikely. Two of the nine justices would definitely vote to overrule *Roe*. Five would not. Nobody knows for sure how Mr Bush's two appointees, Mr Roberts and Samuel Alito, would vote. Both are Catholic, and both appear to believe that abortion is wrong and *Roe* was shoddily reasoned. But both are so reluctant to overturn settled precedents that it would be surprising if they tore up one that has lasted 33 years.

Mr Roberts's modest approach has enabled him to coax his colleagues into a surprisingly large number of unanimous decisions. On a court so divided ideologically, this requires skill. Consider, for example, a recent case on whether the government can deny funds to universities that bar military recruiters from campus. Some law schools said that if they had to welcome recruiters, they were in effect being compelled to endorse the army's “don't ask, don't tell” policy on gays, and that this infringed their right to free speech.

The court ruled against them. Mr Roberts pointed out, first, that they were free to bar recruiters if they did not take federal money. And, second, that only their conduct was being regulated, not their speech. If they wanted to make clear their disagreement with army rules, they were free to help organise student protests. This ruling satisfied nearly everyone. Conservatives were pleased that the army could carry on recruiting clever people. Liberals were pleased that free speech had been endorsed while anti-gay rules had not. All nine justices signed the opinion.

As usual, however, the court has saved its toughest cases until last. The harmony crumbled this week, as several cases were decided by one or two votes. The most closely-watched of all was *Hamdan v Rumsfeld*, connected with Guantánamo Bay. But other cases, ruled on this week, showed that the appointment of Mr Alito to replace Sandra Day O'Connor may have nudged the court a little to the right.

For example, Mr Alito's vote was decisive in upholding a rule in Kansas obliging jurors to impose the death penalty in murder cases where they deem aggravating and mitigating factors to be of equal weight. Justice David Souter, one of the court's liberals, said this was “obtuse by any moral or social measure”.

In a 5-4 ruling two weeks ago, both Mr Roberts and Mr Alito joined the majority in ruling that evidence seized after the police knocked on a door and waited only three to five seconds, rather than the standard 15-20 seconds, need not be excluded from a trial. This could lead to more “illegal, military-style no-knock raids” and “more innocent civilians wrongly targeted,” says Radley Balko, the author of “Overkill: The Rise of Paramilitary Drug Raids in America”, a paper for the libertarian Cato Institute.

On some issues, the court remains split to the point of confusion. In one controversial case this week, the judges threw out most challenges to a partisan gerrymander favouring Republicans in Texas, but could not begin to agree on clear rules on how electoral districts can be redrawn.

In an equally fraught case about a Vermont law imposing very tight limits on the amount of money political candidates can raise and spend, the nine justices wrote six separate opinions. Two opposed, more or less, any such limits, which they say infringe free speech. Three smiled even on the tightest limits. In deference to precedent, Mr Roberts, Mr Alito and Stephen Breyer ruled that donations can be limited but spending cannot. The issue remains horribly muddled.

The court's next term promises firecrackers. Among the questions are: can the Environmental Protection Agency regulate the emission of greenhouse gases? And can states ban “partial-birth” abortion without making an exception when the mother's health is threatened?

Speaking about his honeymoon period on the court, Mr Roberts recently remarked that he felt like someone who had jumped off the Empire State Building and, passing the 50th floor, said: “So far, so good”.

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Flag burning

Wrapping themselves up in Old Glory

Jun 29th 2006 | WASHINGTON, DC
From The Economist print edition

Not the proudest of weeks for the Senate

BURNING the American flag, the Supreme Court ruled in 1989, and again in 1990, is a variety of freedom of speech that enjoys constitutional protection under the First Amendment. So that's that? Not at all. This week the Senate spent two long days discussing whether the constitution should be amended to make flag desecration illegal. The House has already approved such an amendment by 286-130; but to be ratified it needs to pass the Senate by a two-thirds majority, and then to win the support of 38 state legislatures.

The most striking thing about the debate was the disproportion between the problem and the proposed remedy. On an average day you can see hundreds of American flags but the chance of seeing one of them in flames is pretty small. The Citizens Flag Alliance, which has been pushing for the amendment, could report only four incidents of flag desecration this year.

The debate was an exercise in the purest cynicism: draping political self-interest in the Stars and Stripes. The Republicans face a difficult election in November. What better way to whip up the base than by refocusing the debate on highly charged issues? This week's attempt follows hard on the heels of another Republican-inspired debate to amend the constitution to ban gay marriage. How splendid to discombobulate the Democrats by waving Old Glory in their faces. And the Democrats were indeed discombobulated, several of their leading lights dutifully voting for the amendment. Hillary Clinton, true to her strategy of trying to straddle her party's liberal and centrist wings, opposed the amendment but called for federal legislation to ban flag desecration.

After two days of heady rhetoric the amendment failed to make it across the two-thirds hurdle. But the vote came closer to passing than it ever has before—falling just one vote short compared with the four votes last time. No fewer than 60 senators signed up as sponsors.

But in the longer term, the Republicans are playing with fire. Most Americans revere the constitution even more than they revere the flag. The Republicans' willingness to tinker with the document may backfire. After all, two proposed constitutional amendments in a month is rather excessive, given that there have been only 26 amendments to the document in 219 years.

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Miami arrests

Seas of David

Jun 29th 2006 | MIAMI
From The Economist print edition

Were they evil plotters or just dotty wishful thinkers?

Get article background

EVEN for a bunch of hapless wannabes, the seven young men charged in Miami late last week were in a confused league of their own. The group, which got together last November, is accused of having sworn allegiance to al-Qaeda and of planning to blow up the Sears Tower in Chicago, as well as the FBI's Miami field office. But even the FBI's deputy director, John Pistole, describes the alleged terrorists as "aspirational rather than operational".

They operated out of a small, low-rent windowless warehouse in Liberty City, an African-American neighbourhood that is one of Miami's poorest. The members studied both the Koran and the Bible. All are black and six of the seven are of Haitian origin. The seventh is Hispanic, from either Guatemala or the Dominican Republic. Some were born in the United States, but at least two are not citizens. Records show that six of the seven appear to have faced criminal charges before, for marijuana possession, battery, assault and having concealed weapons.

The group's alleged ringleader, Narseal Batiste, 32, took to studying the Koran after September 11th 2001. The son of Christian preachers in Louisiana, he ran a small building company that employed some of the other members. Fond of walking the streets in a dark robe, carrying a cane, he called the group "Seas of David" and claimed to be a "soldier of Allah". He had spent time in Chicago where he was influenced by the teachings of the "prophet" Noble Drew Ali, who founded the Moorish Science Temple of America. This blends Christianity, Judaism and Islam, as well as teaching physical discipline through the martial arts.

Neighbours say the group was friendly enough, but behaved oddly. Its members often walked about wearing ski-masks and turban-like headgear. They taught martial arts to a group of local teens every afternoon. In May the group put flags from a dozen countries on the roof of their headquarters, leaving out the Stars and Stripes. They apparently opposed the war in Iraq. But unlike other more organised and more dangerous groups, the Liberty City cell appears to have had no direct knowledge of the Islamic world or contact with radicals.

It does not seem to have been very difficult for the government to foil the group's "plot", given the public nature of its operations. The scheme, if such it was, began unravelling almost at once. According to the indictment, the authorities received a tip that the group was seeking foreign support, and a government informant was sent to infiltrate it, posing as an al-Qaeda representative.

Allegations that the group sought support from al-Qaeda to plant bombs appear largely based on conversations between Mr Batiste and the informant. He is said to have told the informant that he was trying to build an "Islamic army" to wage *jihad*. He also asked for machineguns, uniforms, boots, radios, vehicles and $50,000 in cash. He allegedly cased the federal courthouse and other buildings in Miami using a videocamera, but even that was provided by the government. Prosecutors could face a difficult job in court: defence lawyers may argue that the government overreached itself by seeking to entrap the men in a plot in which the informant appears to have been a prime instigator.

In any event, officials say the plot never progressed beyond the early planning stages. The group never acquired guns or other weapons. By May, it appears the plan had already begun to fizzle out. "I don't think anyone seriously believes that these were real terrorists," says David Markus, president of the Miami chapter of the Florida Association of Criminal Defence Lawyers. When he announced the arrests,

even the attorney-general, Alberto Gonzales, seemed hesitant about how to define the group and its plotting.

A local Liberty City activist and film-maker, Leo Casino, said the group's alleged violent aims revealed more about inner-city deprivation than about international terrorism networks. He was not surprised by the emergence of the Seas for David. “There's so much death and destruction around here,” he observed, looking round at the drugs and the dismal conditions of the Miami slum.

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Wind power in Texas

Blowing strong

Jun 29th 2006 | MCCAMEY, TEXAS
From The Economist print edition

The oil and gas state is bullish about a new sort of energy

"THAT'S the future, right there," says Randy Sowell, a land manager for Cielo Wind Power in McCamey, which proclaims itself the "wind energy capital of Texas". He is staring up at a giant wind turbine, towering several hundred feet high above the bleak desert mesa. Amid a forest of gently spinning white blades, this one is the latest technology at three megawatts—enough to power about 800 homes. Even Enron built some turbines here, in one of the company's last acts before bankruptcy.

In 2005, Texas was second only to California in terms of installed wind capacity, with 1,995 megawatts. Now, "we may actually be number one", boasts Jerry Patterson, the state land commissioner, who is aggressively pushing wind—still only a sliver of total Texan power supply but growing fast. Most wind farms are on private land in west Texas and the even more blustery Panhandle, but this spring the state signed a lease for the largest offshore wind farm in America, in submerged lands near Padre Island national seashore.

Another Gulf of Mexico agreement, off Galveston, was signed last autumn. Offshore wind farms are plentiful in Europe, but none has yet been constructed in America. They are in many ways more promising than onshore projects because the wind blows more consistently over the water, and at times of peak electricity use (afternoon in Texas, as the air-conditioning revs up). In McCamey, by contrast, the wind is intermittent: best at night, and in spring and autumn.

Economics, not environmentalism, has driven the boom in Texas. "Oil and gas is a diminishing resource," notes Mr Patterson. For Texans wanting to stay in the energy business, wind is an obvious step—especially with the ten-year federal tax credit for wind producers of 1.8 cents per kilowatt-hour. The high price of natural gas has also made wind more competitive. McCamey showcases the change. During the 1970s the town thrived on oil; now the oil is mostly gone, and wind has created dozens of new jobs for an otherwise withering town.

Wind is not without hitches. Turbine manufacturers have not kept up with demand, creating shortages. A bigger problem is transmitting the energy over the grid. Texas is a huge state—it is several hundred miles from McCamey to Houston or Dallas—and the utilities cannot build transmission lines as fast as the wind farms go up. That is especially true in the Panhandle, which operates on a different grid from most of the state. The offshore projects, by contrast, are conveniently close to big population centres, though hurricanes will be a problem.

Despite the difficulties, Texans, led by Mr Patterson, are bullish. Texas boasts that it lacks the red tape of other states (read, California). Offshore, too, the projects are easier to develop because Texas, uniquely among coastal states, owns more than ten miles off its coast. Credit goes to Sam Houston, the Republic of Texas's first president, who insisted on maintaining control of offshore waters as a condition of joining the union. Elsewhere the federal and state governments split control of offshore land, and this complicates the leasing process.

Texan officials are baffled by other states' worries about wind power. A row about an offshore wind farm

in Massachusetts is regarded as high entertainment. (A project off Cape Cod has been opposed by the Kennedys. They say it will hurt local fishermen; conservatives sniff that the clan does not want the view from their posh waterside home sullied.) “People here just kind of scratch their head and say what's their problem? Get a grip,” says Mr Patterson. The Pentagon's concerns about wind farms' interference with military radar—an issue in the upper Midwest, where projects have been halted—have not been raised in Texas, he says. Anyhow, having spent 2,000 hours in supersonic fighter planes, he thinks “it's bogus.”

The fate of birds is a more immediate source of contention—especially in the Gulf, which is on the migration path for neo-tropical birds. “There are going to be some seagulls popped,” admits Mr Patterson, adding that “after several generations we'll have smarter birds.” In fact Texas will try to minimise bird deaths, perhaps by shutting the machines down for maintenance when the birds migrate (conveniently, the migrations occur in spring and autumn, while peak usage is in summer). New paint—easier for birds to see at night—should also help cut mortality, says Mr Sowell in McCamey, who takes steps to prevent birds from nesting on his turbines.

And Texas has even grander plans. Rather than importing wind turbines from Europe, why not manufacture them locally? Mr Patterson is actively scouring the Gulf for interested port towns. The goal, he says, is “not just to be the number one producer of wind power in the US, but number one in all facets of wind.” Then, perhaps, it will be on to solar.

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Minimum wages

November's $5.15 question

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From The Economist print edition

A Democratic dodge for getting supporters to the polls

HOW much does it cost to buy an election? Supporters of the Democratic Party have a new answer to that question: between $1 and $1.70 an hour. That is how much minimum wages will go up in several states if voters in those places approve ballot initiatives this November.

Although there is a federal minimum wage of $5.15 an hour, each state can set the level higher if it wishes, and 18 states had done so before this year (see table). Now activists in six states are putting the issue on the ballot, giving voters a direct say. Arizona, Missouri and Montana have collected enough signatures, and Ohio and Colorado are on their way. Nevada will be voting for the second time, since amendments to the state's constitution must win twice at the ballot box (the measure passed easily in 2004, and is credited with helping Democrats win several races in the state assembly).

Where you get a little more

States with minimum-wage rates higher than federal rates

State	Basic minimum rate ($ per hour)
Washington	7.63
Oregon	7.50
Connecticut	7.40
Vermont	7.25
Alaska	7.15
Rhode Island	7.10
California*	6.75
Hawaii	6.75
Massachusetts	6.75
New York	6.75
Illinois	6.50
Maine	6.50
Florida	6.40
Delaware	6.15
Maryland	6.15
Minnesota†	6.15
New Jersey	6.15
Wisconsin	5.70

*San Francisco Ordinance $8.50 †Large employer
Source: US Department of Labour

As Nevada showed, the reason for all this activity is not just to promote the cause of a higher minimum wage but also to boost turnout among Democratic voters, thus helping the party's candidates to win close races. This is the same strategy that the Republicans have been using for years to pummel the Democrats, relying on popular right-wing causes to draw conservative voters to the polls. In 2004, an Ohio referendum on gay marriage was widely credited with helping George Bush beat John Kerry in that state—and thus win a second presidential term. Instead of responding the way they usually do—by complaining, and then letting it happen again—the Democrats are fighting back.

The minimum wage is an ideal issue for boosting left-wing turnout. For a start, progressive voters are fired with the idea. They are tired of watching Republicans win elections by appealing to voters' “values”, and are convinced that “fairness” (which they believe minimum wages promote) is the most persuasive value they can offer. In addition, raising a state's minimum wage does not require tax increases, since the exchange is between employers and low-wage workers. Small-business owners, who would bear much of the cost, tend to be Republicans anyway.

Minimum-wage enthusiasts have been improving their salesmanship. Although there is a risk that higher minimum wages could hurt young, low-skilled workers by weakening job growth or training, the evidence is too sparse and sketchy to make a convincing case either way. But having watched conservatives in action on other ballot initiatives, Democratic politicians have learnt that the best way to deal with this sort of nuance and lack of evidence is to profess total confidence and brand your opponents as wicked.

Activists are convinced that they have found an ideal way to help Democratic candidates. Minimum-wage rises are wildly popular on the left but, like the gay-marriage debate in reverse, the issue does not seem to turn off opponents as intensely as it attracts supporters. Indeed, polling in many states suggests that the measures will pass easily so long as they can get on the ballot.

The policy is gaining respect among the party's most powerful groups, which, until now, have been slow to attach much importance to ballot initiatives. Labour unions were reluctant to spend millions of dollars on an issue that would not benefit their already well-paid workers. But when they realised that it might help Democrats win elections—and perhaps take over the House of Representatives this November—they became more supportive. John Edwards, Mr Kerry's running-mate in 2004, has been telling local Democratic caucuses that they should embrace the minimum-wage issue as a sure winner.

The only hitch in the Democrats' plan is that they are up against Republicans who are cunning at fighting this sort of battle. Republicans in Michigan's state assembly were so worried that a proposed ballot initiative would boost Democratic turnout that they dropped their resistance to the idea and passed their own law raising the minimum wage. It will go up by $1.80 in October, a month before the election. Low-paid workers will get an early gift—and a few more of Michigan's Democratic voters will stay home on election day.

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Bike messengers

Soft-pedalled

Jun 29th 2006 | PORTLAND, OREGON
From The Economist print edition

Now even more of an endangered breed than they were before

GRAPHEON, a graphic design firm in Portland, is kind enough to keep a bowl of sweets in its reception area, not for peckish clients but for the ravenous bicycle messengers who dash to the front desk bearing deliveries. These days, however, the bowl is dusty and the Tootsie Rolls stale. Most of Grapheon's clients prefer to e-mail their artwork.

Look around: bike messengers, the freewheeling mavericks whose tattooed calves and daredevil stunts once defined urban cool, are slowly vanishing from America's streets. In New York, the hub of the messenger world, the number has skidded from 2,500 during the dotcom frenzy in the 1990s to an estimated 1,100 today, according to Joel Metz, who runs www.messengers.org, the website of the International Federation of Bike Messenger Associations.

The reason is straightforward. High-speed internet, PDF files, digital photography and digital audio have been eroding bike-messenger revenues by between 5-10% a year since 2000, or so reckons Lorenz Götte, an assistant professor of economics at the University of Zurich (and a former bike messenger himself). The revenue slump has sent wages tumbling. In 2000, messengers in San Francisco could make $20 an hour. Now the average is closer to $11.

Bike messengers have survived dire prophecies before. In the 1980s, doomsayers had predicted that the fax machine would push the profession into oblivion. Faxes did indeed carve a big chunk out of the business, but messengers hung on, thanks both to the poor quality of faxes and to new technology, such as pagers, which allowed prompter dispatch.

Keeping up with the download-and-print world will be trickier. One strategy is specialisation. The legal system still relies on original documents, so some messengers cater to lawyers by offering benefits such as serving subpoenas and filing papers in court. “They are almost paralegals on bikes,” says Mr Götte. Others focus on deliveries that cannot be made electronically—architects' blueprints, for example, or take-out meals.

Paradoxically, although their long-term prospects look wobbly, the messenger subculture has never been stronger. Their grimy allure is celebrated in books, films, festivals, and even trading cards. Last year's Cycle Messenger World Championship, held in New York, drew 700 competitors from 30 countries. Perhaps this signals a resurgence. More probably, it reflects the urge to honour a tradition that is beginning to slip away.

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Abortion law in South Dakota

Fire Thunder's lightning

Jun 29th 2006 | PINE RIDGE, SOUTH DAKOTA
From The Economist print edition

Turning to tribal sovereignty as a way, perhaps, to get round the law

A STRINGENT bill banning all abortions, except to save a mother's life, was to have come into force in South Dakota on July 1st. But the new law has been postponed, at least until November when voters are to have the chance to rescind it by referendum. Some 38,000 qualifying signatures for a referendum overturning the law were collected by the South Dakota Campaign for Healthy Families and a poll suggests that it will pass.

This is not because of a strong pro-choice lobby. Rather, many people feel that the lawmakers went too far in their prohibition, challenging *Roe v Wade*. They should, it is argued, have included exceptions for rape and incest. “My personal feeling is that abortion is wrong,” says South Dakota's governor, Mike Rounds. “The most successful approach, however, will be pragmatic, step-by-step. That was not the approach by this legislative body.”

AP

Fire Thunder, victim of abortion politics

In the meantime, other plans have emerged for getting round the new law. For some years there has been talk of opening a women's health clinic in the state's Pine Ridge Indian Reservation. The reservation covers more than 2m acres in the south-western corner of South Dakota. Most of its 21,000 inhabitants are members of the Oglala Sioux tribe. It is one of the poorest places in the United States, with high unemployment and little economic development. The town of Pine Ridge feels more Latin American than Midwestern, with its poverty and wariness of white strangers.

After Mr Rounds signed the bill in March, Cecelia Fire Thunder, the tribal president, went into action. She declared her willingness for a Planned Parenthood clinic to open on territory sovereign to the Oglala Sioux tribe, where the state has no jurisdiction. Money for such a clinic, which got much media attention, came from pro-choice supporters throughout the country, enraged by the severity of South Dakota's new law. But Planned Parenthood, though polite, said that it had no such plans. So Ms Fire Thunder then supported an initiative to create a new independent health clinic on the reservation, to be called Sacred Choices.

At present, the state has only one clinic that offers abortions, and that is in Sioux Falls, nearly six hours from Pine Ridge. Most reservation women receive their health care through the Indian Health Service (IHS), established as a treaty obligation by the United States in exchange for land seized. However, the IHS cannot provide abortions except in the case of rape, incest or life endangerment, and in 1976, public finance for abortion was further restricted. From 1981-2001, only 25 abortions were performed or financed by the IHS. Many Sioux women were grateful when another family-planning option seemed about to present itself.

But the plan fell victim to tribal politics. At the end of May, the tribal council met when Ms Fire Thunder was out of town and voted not only to ban all abortions on the reservation, but also to suspend temporarily Ms Fire Thunder herself. The grounds were that she had solicited donations for a clinic without getting council approval.

Ms Fire Thunder, a former nurse and the tribe's first female president, claims that Sacred Choices would not perform abortions but merely offer contraceptive advice. Her suspension, she argues, was politically

motivated. Both these claims have weight. The presence of a clinic that offered abortions on the reservation might well have been challenged legally, without an outright ban: the Oglala Sioux tribal code says, rather ambiguously, that a child subsequently born is protected from conception onwards. Moreover, under the state ban, it could be a crime for a non-Indian to administer an abortion to another non-Indian even on Sioux territory.

One of the reasons for anti-abortion feeling on the reservation is historical: in the 1970s, several thousand Native American women were forcibly sterilised by the IHS. Sacred Choices is still in its planning stages, and there is talk of a referendum, similar to the statewide one, to overturn the Pine Ridge ban. Both Mr Rounds and Ms Fire Thunder are up for re-election in November, their campaigns darkened by the abortion issue. But, first, Ms Fire Thunder, still under suspension, was due to face impeachment hearings by the tribal council on June 29th.

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Lexington

Pursuing happiness

Jun 29th 2006
From The Economist print edition

It's the pursuit, rather than the end-product, that makes Americans so American

ONE of the most striking things about the document that Americans celebrate with such gusto on July 4th is that so much of it is dull—hardly worthy of the tons of fireworks and barbecue that are sacrificed in its honour. There are lists of complaints about the administration of the courts and the quartering of British troops. There is an angry passage about King George's habit of summoning legislators “at places unusual, uncomfortable, and distant from the depository of their public records”. But all this tedium is more than made up for by a single sentence—the one about “life, liberty and the pursuit of happiness”.

The sentence was remarkable at the time—a perfect summary, in a few pithy words, of exactly what was new about the new republic. Previous countries had been based on common traditions and a collective identity. Previous statesmen had been exercised by things like the common good and public virtue (which usually meant making sure that people played their allotted roles in the divinely established order). The Founding Fathers were the first politicians to produce the explosive combination of individual rights and the pursuit of happiness. It remains equally remarkable today, still the best statement, 230 years after it was written, of what makes America American. The Book of Job gives warning that “man is born unto trouble, as the sparks fly upward.” Americans, for all their overt religiosity, have dedicated their civilisation to proving Job wrong.

Everywhere you look in contemporary America you see a people engaged in that pursuit. You can see it in work habits. Americans not only work harder than most Europeans (they work an average of 1,731 hours a year compared with an average of 1,440 for Germans). They also endure lengthy commutes (who cares about a couple of hours a day in a car when you have a McMansion to come home to?). You can see it in geographical mobility. About 40m of them move house every year. They are remarkably willing to travel huge distances in pursuit of everything from bowling conventions to factory outlets. You can see it in religion: Americans relentlessly shop around for the church that most suits their spiritual needs. And you can see it in the country's general hopefulness: two-thirds of Americans are optimistic about the future.

Since Americans are energetic even in deconstructing their own founding principles, there is no shortage of people who have taken exception to the happiness pursuit. They range from conservatives such as Robert Bork, who think the phrase encapsulates the “emptiness at the heart of American ideology”, to liberals who think that it is a justification for an acquisitive society.

One criticism is that the pursuit is self-defeating. The more you pursue the illusion of happiness the more you sacrifice the real thing. The flip side of relentless mobility is turmoil and angst, broken marriages and unhappy children. Americans have less job security than ever before. They even report having fewer close friends than a couple of decades ago. And international studies of happiness suggest that people in certain poor countries, for instance Nigeria and Mexico, are apparently happier than people in America.

Another criticism is that Americans have confused happiness with material possessions (it is notable that Thomas Jefferson's call echoes Adam Smith's phrase about “life, liberty and the pursuit of property”). Do all those pairs of Manolo Blahnik shoes really make you happy? Or are they just a compensation for empty lives à la “Sex in the City”?

If opinion polls on such matters mean anything—and that is dubious—they suggest that both these criticisms are flawed. A 2006 Pew Research Centre study, “Are we happy yet?” claims that 84% of Americans are either “very happy” (34%) or “pretty happy” (50%). The Harris Poll's 2004 “feel good index” found that 95% are pleased with their homes and 91% are pleased with their social lives. The Pew

polls show that money does indeed go some way towards buying happiness: nearly half (49%) of Americans with annual incomes of more than $100,000 say they are very happy compared with just 24% of people with incomes of $30,000 or less. They also suggest that Americans' religiosity makes them happier still: 43% of Americans who attend religious services once a week or more report being very happy compared with 31% who attend once a month or less and 26% of people who attend seldom or never.

Weep, and you weep alone

The pursuit of happiness explains all sorts of peculiarities of American life: from the $700m that is spent on self-help books every year to the irritating dinner guests who will not stop looking at their BlackBerries. It also holds a clue to understanding American politics. Perhaps the biggest reason why the Republicans have proved so successful in recent years is that they have established a huge “happiness gap”. Some 45% of Republicans report being “very happy” compared with just 30% of Democrats. The Democrats may be right to give warning of global warming and other disasters. But are they right to give the impression that they relish all the misery? The people's party will never regain its momentum unless it learns to relate to the guy on the super-sized patio, happily grilling his hamburgers and displaying his American flag.

The pursuit of happiness may even help to explain the surge of anti-Americanism. Many people dislike America because of its failure to live up to its stated ideals. But others dislike it precisely because it is doing exactly what Jefferson intended. For some Europeans, the pursuit of happiness in the form of monster cars and mansions is objectionable on every possible ground, from aesthetic to ecological. You cannot pursue happiness with such conspicuous enthusiasm without making quite a lot of people around the world rather unhappy.

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Bolivia

A revolution faces the voters

Jun 29th 2006 | LA PAZ
From The Economist print edition

Reuters

Votes for a constituent assembly and for local autonomy will decide how much Evo Morales can change his country

OVER the past three years, Bolivia has done its best to live up to its earlier reputation as South America's most unstable republic. Street protests have chased two presidents from office. In December, Evo Morales, a radical socialist coca growers' leader of indigenous descent, won 54% of the vote in a presidential election on a promise to “refound” the country on more collectivist lines. To do this, he is counting on a Constituent Assembly to be elected on July 2nd. As the last week of campaigning got under way, smoke from hundreds of bonfires filled the night sky over La Paz, Bolivia's mountain capital.

But the choking fires merely marked the annual celebration of the feast of San Juan. For now, at least, Mr Morales has brought an appearance of calm to a country that has often looked ungovernable. Rafael Puente, who as deputy interior minister is responsible for internal security, says he usually leaves his office at a reasonable hour—though he admits he has bought a blood-pressure monitor after recently suffering one or two scares.

The opposition, too, is jumpy. Mr Morales has already struck an alliance with Cuba's Fidel Castro and Venezuela's Hugo Chávez. On May 1st he fulfilled a campaign promise to nationalise the oil and gas industry. The manner in which he did so—sending the army to seize a plant operated by Brazil's Petrobras—seemed calculated to antagonise foreign investors and Brazil's government, which had considered itself a friend. He has now gone on to launch a big land-redistribution programme. Commercial farmers in Santa Cruz, Bolivia's business capital, fear this may threaten their holdings, and not just involve idle land.

The election will provide the next sign of just where Mr Morales's revolution is heading. The assembly's 255 members are supposed to draft a new constitution over the next year. On the same day, Bolivians will vote on a demand for more regional autonomy, championed by Santa Cruz.

The current constitution, revised in the 1990s, is not obviously in need of replacement. But advocates

argue that this is the best way to tackle discrimination against the indigenous majority in South America's poorest republic. A deal linking the assembly vote to the autonomy referendum reduced tensions. But some Bolivians fear that, far from uniting the country, the assembly will degenerate into factional fights, making agreement impossible.

Another fear is that Mr Morales, who remains very popular, will use the assembly to undermine other institutions and concentrate power in his hands. That is how Mr Chávez used a similar assembly in Venezuela in 1999. Yet this now looks unlikely. The government was forced to withdraw proposed electoral rules that would have all but guaranteed it the two-thirds of seats needed to approve the text (which will then be submitted to a referendum). Instead, it will be compelled to seek alliances. The assembly's make-up will be “about half-and-half, government and opposition,” predicts Samuel Doria Medina, a centrist who lost to Mr Morales in December. “That guarantees we won't go down the Venezuelan road.”

Mr Morales would like to use the assembly to remove the ban on presidents standing for a second consecutive term, but others in his Movement to Socialism (MAS) have reservations about this. He also wants the new constitution to give the state a much bigger role in the economy. It may also grant collective rights to Andean Indian communities, though that risks empowering leaders at the expense of community members.

The trickiest issue concerns local autonomy. The president is reluctant to cede power to what he calls an “oligarchy” in Santa Cruz. But he wants to devolve power to radical social movements that make up much of his political base. That conflicts with what an insider calls the government's “spontaneous tendency towards totalitarianism”.

Behind the autonomy question lies Bolivia's regional divide, between the poor, mainly Andean Indian, highlands in the west and the four departments of the predominantly *mestizo* (mixed race), more prosperous east and north. Although the MAS has growing support in the east, many there feel that they produce the country's wealth—from gas to soya—which a parasitic government wants to grab.

But the view from La Paz is that much of the east's wealth is ill-gotten, and its businessmen are unpatriotic. Mr Puente refers to some of the business leaders in Santa Cruz as “an enemy we must defeat.” He claims that they are “arming themselves to confront the government.” But he also worries that the lack of understanding of lowland issues on the part of the MAS could impede a rapprochement.

Mr Morales at first seemed to want a compromise with Santa Cruz, saying he would back a “yes” vote in the autonomy referendum. He then changed his mind, saying that he would vote “no” to the “autonomy of the oligarchy”, confusing his supporters and angering many people in Santa Cruz.

It is characteristic of Mr Morales to adopt hard-line positions when under pressure from his own people. That may ultimately prove fatal to his government. The MAS and its allies have few clear plans and policies and fewer capable administrators. The government has set a six-month deadline for negotiations over tough new contracts with oil and gas firms. If these fail, the president appears to think that Venezuelan aid will make up for private investment. That is unlikely. Unless Mr Morales learns the art of compromise as well as of confrontation, the fires may soon return to the streets.

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Canada's defence policy

Exploding a myth

Jun 29th 2006 | OTTAWA
From The Economist print edition

Echoes from Afghan battlefields

EVER since Lester Pearson brought home Canada's only Nobel Peace Prize in 1957 for his work on UN peacekeeping, Canadians have embraced the idea that their armed forces exist to keep the peace rather than to wage war. In the 50 years since, Canadian soldiers wearing UN blue berets have become as central to the national self-image as hockey and maple syrup. They even have their own monument in Ottawa. But the notion that Canadians do peacekeeping has become largely a myth. Among the 68,000 troops deployed on UN peace missions around the world, fewer than 60 are Canadians. Canada's biggest force abroad—some 2,300 troops—is in Afghanistan. It is fighting a war.

At the end of 2005, the then Liberal government moved Canadian troops from Kabul to the unstable southern city of Kandahar to join an American-led mission to impose security in the face of attacks from the reviving Taliban. Canadians are slowly waking up to the reality of war: 17 soldiers, including the first Canadian woman killed in combat, have died so far in Afghanistan.

Having decided to extend the deployment until 2009, the Conservative minority government elected in January is now splurging on extra kit for the armed forces. In late June, it announced purchases worth some C$15 billion ($13 billion). They include three new support ships, transport aircraft and 2,300 supply trucks. This comes on top of promises in the previous budget of an extra C$5.3 billion for defence spending over the next five years.

Military men are delighted that Stephen Harper, the prime minister, is honouring promises previous governments made and forgot. This will put the “spine” back in the armed forces, declared General Rick Hillier, chief of the defence staff. But while Canadians want their troops well equipped, they do not necessarily want them to fight. In one poll in early June, 48% supported sending troops to Afghanistan, whereas 44% were opposed.

The high level of public opposition may reflect not just a tradition of pacifism in French-speaking Quebec, but disquiet at the mission itself. Anti-American feeling—and hostility to George Bush in particular—has been strong north of the border since the invasion of Iraq, which Canada refused to join. There are many Canadians “who can't stomach the notion of helping Mr Bush,” says David Rudd of the Canadian Institute of Strategic Studies.

Mr Harper, who chose the Canadian base in Afghanistan for his first trip abroad, is well aware of these attitudes. Imitating a measure by Mr Bush, he banned the media from military airfields when coffins were returning home. He was forced to rescind this order when the families of the dead protested. Mr Harper also talks a lot about reconstruction efforts, although fewer than 200 of the troops are involved in these.

The debate on the home front about the Afghanistan mission is far from over, particularly after a report this week by the Senlis Council, a European think-tank, saying that Kandahar was turning into “a suicide mission” for Canada. Afghanistan has become a central issue in the campaign for the leadership of the opposition Liberal Party. Two of the candidates, Michael Ignatieff and Scott Brison, voted in parliament to extend the mission; the other nine hopefuls are all opposed. The coming months will show whether Canadians will embrace peacemaking with the same enthusiasm they have for peacekeeping.

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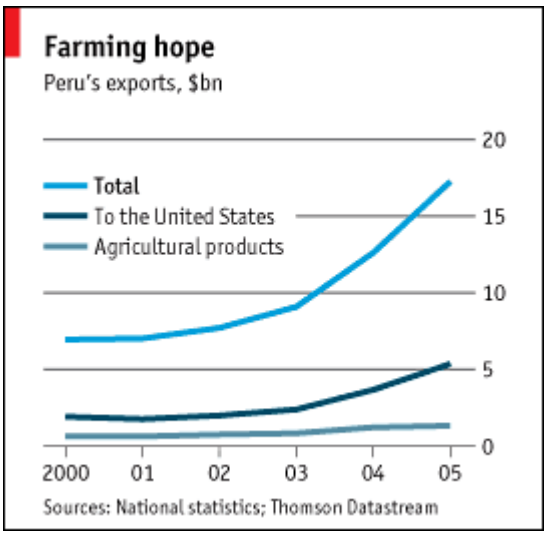
Peru

Free traders

Jun 29th 2006 | LIMA
From The Economist print edition

A new trade pact with America could boost Peru's already booming exports



RECENTLY, Latin America has hardly overflowed with enthusiasm for free-trade agreements with the United States. So Peru's Congress seemed to buck a trend when it voted on June 28th by 79 votes to 14 to ratify a trade deal concluded with America late last year after almost two years of talks. Critics, including irate farmers, trade unions and the left, say it will damage business for Peruvian producers. But polls suggest that most Peruvians support it.

Crucial to the deal's easy passage was a change of mind by Alan García, the victor in last month's presidential election. During the election campaign, Mr García had opposed efforts by the outgoing president, Alejandro Toledo, to ratify the pact before he left office on July 28th. Yet in swinging the votes of his centre-left APRA party behind ratification, Mr García seems to have accepted the government's argument of urgency.

December will see the expiry of the Andean Trade Promotion and Drug Eradication Act, under which the United States allows tariff-free entry of more than 6,000 products from Peru and its Andean neighbours, Bolivia, Colombia and Ecuador. The new free-trade treaty is supposed to replace this measure. Colombia has completed talks for a similar accord, but discussions with Ecuador were aborted earlier this year after protests by indigenous groups and a provocative government decision to take over an oilfield run by Occidental, an American firm.

Peruvian officials will now set off to Washington to lobby American lawmakers to approve the deal before they become too preoccupied with America's mid-term elections in November. “It's a great day for Peru,” remarked Pedro-Pablo Kuczynski, the prime minister, with exuberant delight. “It was important that the vote should be so overwhelmingly in favour. It's not going to be easy, but we believe there's a chance that the American Congress will pass the treaty before July 28th.”

Together with high mineral prices, the expiring trade preferences have helped produce an export boom in Peru (see chart), and sparked the development of new export crops, such as asparagus and paprika. Peru is counting on the new agreement to help double annual exports, led by copper, gold and natural gas, by 2011. The United States accounted for one-third of Peru's $17 billion exports last year. The government hopes the new pact will stimulate big new investment in citrus fruits and sugar cane, partly for conversion to ethanol. Some companies are already studying the possibility of planting cane as an alternative crop to coca on Peru's eastern highland slopes.

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Consumers in South America

Bigger spenders

Jun 29th 2006 | SãO PAULO
From The Economist print edition

But the have-nots have more, and the haves have less, than you might think

ARGENTINA is a South American champion of economic instability, Chile its polar opposite. Yet they occupy the top two slots in a new estimate of household consumption in ten South American countries. The rankings, published this week, are the first results of the International Comparison Programme (ICP) managed by the World Bank, which compares price levels and GDP per head across more than 100 economies based on purchasing power parities—exchange rates adjusted to reflect the price of an identical basket of goods and services in different countries. Paraguay and Bolivia are the laggards in regional consumption; the region's biggest economy, Brazil, ranks sixth.

The pecking order holds few surprises: Argentina has long been one of the region's richest economies, and its 2001 devaluation, which cut by two-thirds the size of its economy in dollar terms, reduced consumption far less. But the gap between the top consumers and those at the bottom is smaller than estimates drawn from earlier data. “[N]either are the poor as poor as conventional statistics make out, nor the relatively rich quite as well off as is sometimes believed,” says the ICP study.

That may also be true within countries. A recent survey of the poor periphery of São Paulo by the Fernand Braudel Institute found that families are consuming goods and services that were once the preserve of the middle classes and the rich. Settled in districts with basic municipal services and thriving commerce, all the households surveyed have refrigerators and colour televisions (often more than one). Nearly half have cell phones, though only 29% own a car. DVD players are also rare: 30% of families own one, but another 22% plan to buy one soon. Much of this is financed by high-cost debt to which “low-income families are becoming dangerously exposed,” says the Braudel study. Interest rates approach 12% a month. In poorer bits of Brazil, a consumption boom is being fuelled by government welfare.

The high-consuming Argentines are especially avid spenders on food and housing, according to the ICP data. Poor Bolivians spend more than average on health and education, while Venezuelans are keen on restaurants and hotels. Brazil is South America's second-most expensive country after Chile. Bolivia and Paraguay are the two cheapest. Argentina is third least-expensive. This is partly thanks to two acknowledged national assets: beef is cheap, and so are books.

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Tourism

Come to sunny Colombia

Jun 29th 2006 | CIUDAD PERDIDA, COLOMBIA
From The Economist print edition

Seriously, it's almost safe

MENTION Colombia, and most people think of cocaine, kidnappings and guerrilla violence. These have served to keep all but the most danger-loving tourists away for decades. But under Álvaro Uribe, Colombia's president since 2002, violence has fallen steadily and many parts of the country have become safe. Now the government is trying to replace conventional images of Colombia with different ones: white-sand beaches, colonial cities, jungle-clad mountains and placid coffee farms.

The tourism campaign has begun at home. This month, during the mid-year school holidays, thousands of Colombians have enjoyed the newly-recovered freedom to travel, using specially policed routes from major cities to favourite holiday spots. The aim now is to convince foreigners. With a promotional budget of just $4m this year, the tourism agency is concentrating its efforts on tour operators and cruise and airline executives. This spring, it invited 130 of them to see the country's beaches, its coffee farms and the Amazon region.

Mr Uribe has himself lobbied bosses of cruise-ship firms. This seems to have paid off. In May, Royal Caribbean announced that from next year some of its ships would call at Cartagena, a colonial walled port on the north coast. The Florida Caribbean Cruise Association held its annual meeting in the city last week.

Tourism officials expect 1.5m foreign visitors this year, more than 50% up from the 925,000 in 2005. (Mexico, Latin America's top tourist destination, attracts 20m foreigners a year.) Lonely Planet, a travel publisher, has chosen Colombia as one of its top ten travel hotspots for 2006, in large part because of the improvement in safety.

But care is still needed. Lonely Planet advises tourists to steer clear of Chocó on the Pacific coast, Putumayo in the far south and “anywhere east of the Andes”, where there are still guerrillas. America's State Department and the British Foreign Office also warn travellers against wandering into rural areas.

Even so, groups of foreign hikers have recently taken to visiting Ciudad Perdida, one of the largest and oldest pre-Columbian settlements in the Americas, in the jungles of the Sierra Nevada de Santa Marta. The area is still home to leftist guerrillas and remnants of their arch-enemies, the right-wing paramilitary militias. But the fact that many other parts of what is a large and physically beautiful country are now safe to visit amounts to progress.

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South-East Asia

Fighting rebellion the wrong way

Jun 29th 2006 | BANGKOK AND BULACAN PROVINCE, PHILIPPINES
From The Economist print edition

The Philippines and Thailand are getting increasingly keen on waging "war" on domestic unrest

THE boundaries between rebellion, terrorism and criminality can be fuzzy in South-East Asia. Rebels supposedly struggling for local self-rule or a juster society may be enriching themselves through extortion and kidnapping. And factions within such insurgencies sometimes help or are helped by terrorist groups with bolder aims—like creating an Islamic "superstate"—and deadlier methods than those the rebels might adopt.

This makes it hard for the region's governments to know how to deal with insurgents. Their stock response has often been to launch a new "war" on them. Such military-led campaigns, though, may be motivated mainly by a need to be seen to be doing something rather than nothing; or by a desire to divert attention from other political problems. They rarely succeed. Often, by tacitly sanctioning brutality by the security forces, they make things worse.

So it is not encouraging that, in recent days, President Gloria Macapagal Arroyo of the Philippines has given her security forces a two-year deadline and an extra 1 billion pesos ($19m) to wipe out the communist New People's Army (NPA). Nor does it augur well that Thaksin Shinawatra, the equally embattled prime minister of Thailand (see article), has just given his country's army chief, Sonthi Boonyaratglin, "full authority" to quell a two-year-old Muslim insurgency in the country's southern provinces.

The Philippines' communist uprising affects most of its provinces and has caused perhaps 40,000

deaths since it started in the 1960s. Talks between the NPA and the government broke down two years ago. Since then the rebels have attacked repeatedly, raiding police stations to steal guns and bombing businesses which refuse to pay the “revolutionary taxes” demanded of them. Though nothing like on the scale of the 1960s and 1970s, the problem refuses to go away.

However, it is unclear what reasons Mrs Arroyo has for launching a fresh assault on the NPA now—other than cynical ones. Her announcement hogged the headlines ahead of her opponents' launch this week of fresh attempts to impeach her on vote-rigging charges. The president followed it with a visit to the Vatican on June 26th, to receive the pope's blessing for her recent abolition of the death penalty.

But just as she is abolishing judicial executions, Mrs Arroyo risks giving tacit support to extra-judicial killings by the security forces sent to root out the NPA. Josefina de la Cruz, the governor of Bulacan province, north of Manila, says there are already three contingents of soldiers conducting anti-insurgency operations there, at least one of which does not answer to the local army command. The shadowy group's leader may be linked to the murders of five farm workers in February, says Mrs De la Cruz.

While waging war on the NPA, Mrs Arroyo's government continues to negotiate a peace deal, supposedly to be signed in September, with the Moro Islamic Liberation Front (MILF). This group, fighting for greater autonomy for the country's mainly Muslim southern provinces, has observed a ceasefire since 2003. However, a 1996 peace deal with another rebel group, from which the MILF had split, failed to end the south's violence. Unless the government does more to reduce poverty and improve governance there, the rebellion may just continue under other names—such as that of Abu Sayyaf, a small group linked to al-Qaeda which has carried out kidnappings and bombings in the region.

Unlike that in the Philippines, **Thailand's** insurgency is clearly getting worse. Civilians are now regularly being attacked, not just the security forces. Nobody knows how many rebel groups there are in the three mainly-Muslim provinces bordering Malaysia, but some are clearly well organised. On June 15th they let off 50 bombs across the region. This week, militants killed five members of a security team deployed to protect teachers, whom the rebels associate with the Thai state.

The Thai security forces have made things worse by handling the uprising appallingly. In the most notorious case, in 2004, around 80 Muslim protesters were suffocated after being crammed into trucks by the army. An official commission was set up last year to propose solutions to the conflict. On receiving its report, in early June, Mr Thaksin's government pledged to follow its recommendations. These included compensating people ill-treated by the security forces and officially recognising the Malay dialect spoken in the three provinces. Since Mr Sonthi is a Muslim, there were hopes that his appointment as counter-insurgency supremo would signal a change for the better.

However, the signs already look bad. Mr Thaksin has rejected the proposal to recognise the southern dialect and is already grumbling publicly that Mr Sonthi is not doing enough. This suggests he might last no longer than the succession of short-lived supremos that preceded him.

Given the blurred boundaries between rebels with a local cause, terrorists waging global war and self-enriching criminals, signing peace pacts with insurgents' leaders is no guarantee of peace. But the so-far successful peace process in **Indonesia**'s Aceh province shows that governments tend to achieve more by making sincere efforts to discuss local grievances and rein in their armies than by letting slip the dogs of war. As recently as 2003, the Indonesian government was still trying to quell separatism in Aceh with force. Only after a new president, Susilo Bambang Yudhoyono, came to power and accepted the need to make a political deal, was an agreement struck that has led to the rebels disarming and to peace in the province.

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Thailand's politics

Messier and messier

Jun 29th 2006 | BANGKOK
From The Economist print edition

Prosecutors now want both the main parties scrapped

EPA

Is Thaksin disintegrating?

ANY faint hopes that Thailand's politics were heading back to normal have dimmed after a decision by public prosecutors, on June 27th, to ask the Constitutional Court to disband both the governing Thai Rak Thai (TRT) party and the main opposition Democrats. An 11-member investigatory panel in the attorney-general's office had unanimously found them guilty of gross misconduct in April's inconclusive elections.

The prosecutors found sufficient evidence to damn TRT for bribing fringe parties to put up candidates, allegedly to circumvent a rule that uncontested candidates must get at least a fifth of votes cast (including ballots marked “no vote”). The Democrats and other parties boycotted the elections, claiming they would be unfair because of the way Thaksin Shinawatra, the prime minister, dominated the country's institutions. The prosecutors accuse the Democrats, among other things, of unconstitutional behaviour for leading the boycott.

The fresh elections that have been scheduled for October now look in doubt. Though the Constitutional Court's president said its hearings should take only about a month, the parties' leaders are likely to defend themselves stoutly, so it could take much longer to reach a verdict.

That both main parties face dissolution increases the chances that both will be let off. However, if the court does disband both, many of the country's leading politicians could find themselves disqualified from standing in the elections by a rule requiring candidates to have belonged to their party for 90 days. If the elections were to be delayed long enough to let politicians from dissolved parties re-form them under new names, it would make a mockery of the rule of law. King Bhumibol recently declared his country's political situation a “mess” and urged the country's courts to sort it out. But it has just got even messier.

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Japan and America

Don't leave me now

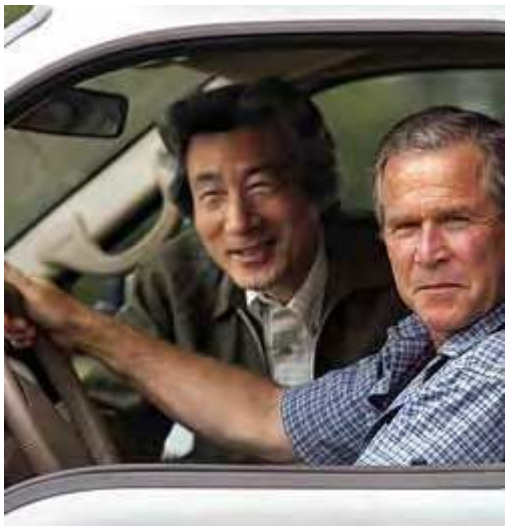
Jun 29th 2006 | TOKYO AND WASHINGTON, DC
From The Economist print edition

George Bush's best Asian buddy is retiring

WITH the only world leader to have serenaded him with the Elvis Presley song “I want you, I need you, I love you” retiring in a couple of months, President George Bush may soon feel a bit lonesome. For his friendship with Junichiro Koizumi was based on more than just tender words. After the attacks of September 11th, Mr Koizumi threw his country behind America. Stretching Japan's pacifist constitution to its limits, he sent refuelling ships to the Indian Ocean to help America against the Taliban and troops to help reconstruction in Iraq. By inviting Mr Koizumi to Washington on June 29th, Mr Bush wanted to say goodbye and thank you.

The alliance is in far better health than during the 1980s, when American politicians complained of a Japanese economic invasion and a few alarmists even predicted conflict. Mr Koizumi has long looked forward to this trip as his swansong, say aides. Yet something is not quite right. A few weeks ago, Mr Koizumi looked set to be accorded that rarest honour, an address to a joint session of Congress. Now, it transpires, the highlight of the trip will be a pilgrimage with Mr Bush to Graceland, Elvis's home outside Memphis.

AP



Koizumi and Bush in happier times

Fair enough: Mr Koizumi is an ardent Elvis fan. But the change of venue may spring from worries at the five visits he has made as prime minister to the Yasukuni shrine in Tokyo, which honours Japan's war dead, including 14 Class A war criminals. Suspicion of Japan is strongest in Asia, but there's a bit about in America too. Many servicemen were brutally treated by the Japanese during the war. And American policymakers sometimes fret that Japan's insensitivity makes engaging with a rising China harder.

So, when the possibility of an address to Congress was mooted, Henry Hyde, the chairman of the House International Relations Committee and a war veteran, wrote to the speaker, Dennis Hastert. It would, said Mr Hyde, not be appropriate for Mr Koizumi to use the podium used by Roosevelt to denounce the Japanese attack on Pearl Harbour if he then made his annual visit to Yasukuni on August 15th, the anniversary of Japan's defeat in 1945. The idea of an address to Congress melted away.

Still, he and Mr Bush have substantial issues to discuss. Most recently, the importance of America's alliance with Japan has been underlined by North Korea's preparations to test a long-range missile. America and Japan share an obvious interest in persuading Kim Jong Il not to lob missiles in their direction. Japan feels less threatened, however, by Iran's apparent intention to build nuclear weapons. Urged by America to help it isolate Iran, it fears that this would cut off one of its main sources of oil.

Japan's interests were not exactly the same as America's in Iraq, either, but Mr Koizumi backed Mr Bush in part because the stakes, for Japan, were lower. Its oil supply was not threatened, and its commitment of troops was largely symbolic. For America, however, preventing Iran from going nuclear is of paramount importance, and doing so peacefully depends in part on Japan supporting any sanctions regime. Japanese officials, however, are very keen to see agreement at the UN Security Council—unlikely, given China's reluctance to let the issue interfere with its own quest for oil.

A final tension between America and Japan concerns trade. If the Doha trade talks are not to collapse,

both countries must open their farm markets more. Japan is especially reluctant to do so, as was illustrated by a recent spat over American beef, in which fears of mad-cow disease strengthened the hands of protectionists.

What of the future? Given Mr Koizumi's friendship with Mr Bush, many worry that relations between America and Japan may cool after he goes. That will depend on Mr Koizumi's successor. Of the two main contenders, Yasuo Fukuda wants to mend relations with China by, among other things, drawing the Yasukuni sting. The favourite, Shinzo Abe, is more overtly hawkish. But either will surely find that, whatever they feel about America, they need it.

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Infectious diseases in China

Sanitising the record

Jun 29th 2006 | JIUXIAN
From The Economist print edition

China is not helping as it should

IN CHINA'S battle against infectious diseases of global concern, from bird flu to foot-and-mouth, its Agriculture Ministry clearly has a crucial role to play. But getting the ministry's powerful and secretive bureaucracy to co-operate in the fight against disease is quite a struggle.

The fragmented record

Foot-and-mouth in China

Year	Counties affected	Swine infected*	Cattle infected	Sheep/ goats infected
1982	1,000	20,000,000	1,300,000	–
1983†	–	520,000	–	–
1987	–	5,500	900	–
1988-89	71	15,963	176	–
1989-90	123	31,648	3,208	2
1990-91	311	116,163	4,055	–
1991-92	315	43,877	599	3
2005-06	–	–	873	–

*Statistics may also include swine vesicular disease
†Guangdong province alone, which was worst affected in 1983
Source: Internal Chinese government documents

For instance, May last year was the first time ever that the ministry officially reported outbreaks of foot-and-mouth, a disease that affects pigs, as well as cattle and sheep. As a member of the international body that monitors the disease, the World Organisation for Animal Health, China is supposed to report any cases of foot-and-mouth as they occur. But even though the disease had often been rampant in China (and has probably never been fully eliminated), reports were treated as state secrets. The data in our table concerning outbreaks more than 14 years ago come from internal documents, and are probably still officially secret. More recent figures were not available until the government started reporting last May.

The limits of the ministry's flirtation with openness last year became quickly evident when foot-and-mouth broke out near the capital (it had done so before, but the ministry kept quiet about it). For more than two weeks after sealing off the township of Jiuxian, about 50km (30 miles) north of central Beijing, and slaughtering hundreds of its cattle, the authorities said nothing. Only in late May, a few days after reports began to surface in the Hong Kong media, did they finally confirm suspicions.

This secrecy also permeates the ministry's response to bird flu, a disease that scientists fear could mutate and kill large numbers of people. Unfortunately domestic fowl, which have borne the brunt so far of the H5N1 virus's spread, come under the ministry's aegis. Although the ministry has built up what Western experts believe to be a wealth of information on the virus's development, it has been reluctant to share it. World Health Organisation officials were given five live virus samples in 2004, but have been given none since.

The Ministry of Agriculture first reported an H5N1 outbreak among poultry in January 2004. But in a letter published last week by the *New England Journal of Medicine*, a group of Chinese scientists said a man subsequently discovered to have been infected with H5N1 had died in Beijing in November 2003.

The erratic information flow is not entirely the fault of top officials. Peasants and rural governments are reluctant to come clean about anything that might disrupt local economies. In Jiuxian, peasants are still seething about what they say is inadequate compensation for their slaughtered cows. Rumour has it there that smaller outbreaks occurred elsewhere in Beijing at the same time but were covered up, those farmers getting better compensation. Dozens of people who tried to protest in the city centre last year were hauled away by the police and sent home.

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Baluchistan

Turning a fight into a war

Jun 29th 2006 | DERA BUGTI
From The Economist print edition

Pakistan's aggressive policy towards its aggrieved west is causing chaos

THE castle belonging to Nawab Akbar Khan Bugti in Dera Bugti, a small town in Pakistan's western province of Baluchistan, stands like an epitaph to a lost battle. The walls have been ruined by cannon fire. Most of the local residents have fled. Those who remain in the town are mostly renegade Bugtis, of a clan opposed to Mr Bugti's God-like rule over the tribe. A few years ago, Mr Bugti drove them from Dera Bugti. But, since he began squabbling with the government, which set its troops on him last year, it has carted them back. “He's finished,” says one of their protectors, a colonel in Pakistan's frontier corps. “People want change.”

Few in Baluchistan would disagree with the second claim. It is Pakistan's biggest and poorest province: a vast expanse of arid plains and brittle hills, home to 5m people, half of whom are impoverished. It produces most of Pakistan's natural gas—including 40% from a single gasfield, at Sui, on Mr Bugti's land—yet, until recently, almost no Baluch village had access to gas. Thus marginalised, the province has arisen in insurgency every decade or so since Pakistan's creation. The biggest, in the mid-1970s, sucked in 80,000 troops and cost 8,000 lives.

The latest uprising, led by Mr Bugti, a former interior minister, now nearly 80 years old, and two other tribal lords, or *sardars*, has raged for the past 18 months. After the government shelled Dera Bugti last year, Mr Bugti took to the hills on camel-back to direct the insurgency, armed with a Kalashnikov and a satellite telephone. Last December, after rockets were fired at a rally attended by Pakistan's president, Pervez Musharraf, the army began assaulting him there.

To reach the cave Mr Bugti calls home, your correspondent trekked for a week through scorched valleys and moonlit hills, circumventing army pickets. Though half-crippled by thrombosis, Mr Bugti, who claims to have killed his first man at the age of twelve, was in good spirits. “It is better to die quickly in the mountain than slowly in bed,” he said, surrounded by a silent crowd of Bugti gunmen. A fan of Nietzsche and Genghis Khan, he speaks perfect English and delights in punctiliously-pronounced discourses on the love-life of camels and wreaking horrible revenge on his foes. “What is better than seeing your enemies driven before you and then taking their women to bed?” he says.

While Bugti tribesmen harry the army, a mysterious outfit, the Baluchistan Liberation Army, which the government says is also run by the *sardars*, is attacking policemen and soldiers across the province. Both groups are believed to have received assistance from India, across the nearby porous border with Afghanistan. In the past few years, 400 Pakistani soldiers have been killed in the conflict, as well as several hundred people in army attacks. Pakistan's Human Rights Commission has documented government atrocities, including a massacre of 12 civilians in January.

For General Musharraf, this has become a serious headache. Gas supplies to Pakistan's main towns have been interrupted by attacks on Baluchistan's pipelines and gasfields. Construction of a vast new port, at the Baluch village of Gwadar, has been occasionally disrupted. Across Pakistan, meanwhile, for reasons including rising inflation and his pro-America policies, the general is fast becoming unpopular; and the Baluch insurgents have drawn sympathy.

Mr Bugti has a dreadful history of oppressing his people, yet the grievances he claims to be fighting for are real. Moreover, Pakistanis see the conflict as an extension of an even more unpopular campaign General Musharraf is waging against Pushtun Islamic fundamentalists in the northern tribal areas. In the past two years, for no obvious gain, over 600 soldiers have been killed there—including six on June 26th in a suicide bomb attack in North Waziristan tribal agency.

If only General Musharraf would listen to the aggrieved Baluch, his more level-headed critics say, worse violence could be averted. But that looks unlikely. In May 2005, a parliamentary committee proposed 32 sensible ways to placate them, including increased development spending and a local stake in the port at Gwadar. None of these has been taken up. And General Musharraf's hand is growing heavier. Across Baluchistan, thousands have been arrested, often merely because of their alleged nationalist opinions. An alliance between feudal tribes, like the Bugtis, and more enlightened nationalists, who despise the *sardari* system, has been forged by shared suffering.

“We are no longer fighting for autonomy but for survival,” says Akhtar Mengal, leader of the Baluchistan National Party (BNP), and son of another *sardar*. The BNP has been holding mass rallies across Baluchistan, including in the capital, Quetta, attended by teachers, doctors and students, as well as bearded tribesmen. “Our demand is simple,” he says: “Maximum autonomy; or we too will take to the mountains and fight for independence.”

General Musharraf is believed to be sincere in wanting to bring greater prosperity to Baluchistan—and to make it the hub of Pakistan's energy sector. Yet he seems convinced that to end its insurgency, he has only to crush the bothersome *sardars.* In that, though, he is wrong.

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India

The long arms of the law

Jun 29th 2006 | DELHI
From The Economist print edition

Resolving commercial disputes in India can take forever

MANY Indians readily admit that the failings of their country's "hard" infrastructure—its potholed roads, clogged airports and meagre electricity supply—are a serious deterrent to foreign investors. But, they argue, at least it offers an above-average "soft" infrastructure of institutions and regulatory frameworks. In particular, its elaborate legal system is often cited as an advantage compared with, say, China's state-controlled courts. Some foreign firms that have found themselves embroiled in seemingly endless legal wrangling may beg to disagree.

India Picture

Suffer any wrong that can be done you, rather than come here!

This week, the government's press department reported that the number of civil and criminal cases pending before India's courts has exceeded 30m, up from 20m in 1997. Among the reasons are a shortage of judges—just 11 for every 1m people, compared with 51 in Britain and 107 in America. There is also what Nick Archer, a lawyer with a British firm, Slaughter and May, calls a "frightening lack of case management". Cases are not assigned to a particular judge for their duration, and are often adjourned. Advocates may take several briefs on the same day, not turning up for some, causing yet more adjournments.

A few foreign firms figure in the staggering judicial backlog. Scott Wilson Kirkpatrick, for example, a British firm of consulting engineers, has been waiting more than five years for an award of more than $1m dollars that an arbitration panel made in its favour against the government of the state of Jharkhand. The state government appealed to an Indian court. When it upheld the award, the government appealed to a higher court, and eventually to the Supreme Court, which has yet to hear the case.

In his book "Courts and their Judgments", written in 2001, Arun Shourie, a journalist and former minister, described a similar case involving one of the world's big manufacturers of compressors. Eight years into the dispute, it was, he noted "nowhere near resolution". "Is a person or firm that is put through the mill like this liable to be eager to do business with India?" he asked.

Mr Shourie also noted that the delays have made foreign firms loth to sign contracts under which awards set by arbitration panels can be challenged in Indian courts. Does this help India, he wondered—or even

its lawyers?

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Israel and Palestine

Might something good come out of it this time?

Jun 29th 2006 | JERUSALEM
From The Economist print edition

EPA

Israel has launched an attack on Gaza and arrested a slew of Hamas leaders in the West Bank in a bid to win back an abducted Israeli soldier. What next?

Get article background

THREE days after militants from Gaza kidnapped a 19-year-old Israeli corporal, Gilad Shalit, in a daring raid near a border post on June 25th, Israeli forces went into the strip en masse for the first time since their withdrawal last summer. Air strikes took out a power station, cutting off the electricity and thus the water pumps in much of the strip, and smashed road bridges linking north and south Gaza. Then, in a risky raising of the stakes, Israel arrested a clutch of ministers of the Palestinians' Hamas government and some 60 Hamas officials in what looked like a quid pro quo for the corporal's abduction.

So far, at least, the troops have stayed out of populated areas. Israel's aim is to make life miserable for Gaza's 1.4m people and, through them, to force the kidnappers to give up their human booty. It may not be able to do much more. The last time Israel tried to rescue a kidnapped soldier, in 1994, he died in the raid. Nor, however, does it want a repeat of scenarios in which hostages have been held for years.

Statements from the militants, and now from the Hamas-led Palestinian government, have demanded the release of Palestinian women and minors in Israeli jails in exchange for Corporal Shalit. A young Israeli settler kidnapped in the West Bank the same day has already been killed. But Ehud Olmert and Amir Peretz, respectively the prime minister and defence minister, leaders of rival parties in Israel's fragile governing coalition, desperately need to look tough. Giving in by releasing prisoners could be politically fatal. Rather, they have upped the ante by arresting the Hamas politicians. For now, their best hope is that Egyptian and French diplomats in touch with the militants can reach a deal.

Certainly, they cannot rely on the Palestinian Authority (PA). Three groups have claimed joint responsibility for the raid: the hitherto unknown Islamic Army; the Popular Resistance Committees (PRC), a small but active militia with fluid political loyalties; and the Izz ad-Din al-Qassam Brigades, Hamas's military wing. Israel says Hamas is responsible for the soldier's fate. But the various branches of Hamas, already divided over attempts to reach an accord with its secular rival, Fatah, which it ousted in January's election, are practically in open war over the abduction.

Some Hamas leaders in Gaza and the West Bank—though not, so far, Ismail Haniyeh, the Palestinian prime minister—have called for the soldier's immediate release. By contrast, Khaled Meshal, the movement's supreme leader in exile in Syria, says the opposite. Some think Mr Meshal, displeased by the Hamas-Fatah talks, is using the kidnap crisis as a way to put pressure on the “inside” leadership.

Yet nor is it clear that even Mr Meshal has any control over events. Notionally, the Qassam brigades answer to him. But some reports suggest that a splinter group within the brigades teamed up with the PRC, whose late leader, Jamal Abu Samhadana, had planned the raid before an Israeli missile killed him last month.

In the shadow of this crisis, Hamas and Fatah have struck a deal on the document that a cross-party group of jailed militants signed in May. The document could, if read with a sufficiently open mind, imply an acceptance of Israel's right to exist. It talks of a Palestinian state in the West Bank and Gaza, “based on international law and international legitimacy”. It acknowledges the supremacy of the Palestine Liberation Organisation (PLO), which, at least according to public declarations, has abandoned the bits of its charter that called for Israel's destruction. All this is more than Hamas has ever committed to before.

Still, it falls far short of the world's demands that Hamas recognise Israel unequivocally, and is certainly unlikely to soften the attitudes of Israel and the United States. Moreover, the agreement between Hamas's Mr Haniyeh and Fatah's Mahmoud Abbas, the Palestinian president, reportedly contains wording about the need for any future moves to “serve Palestinian interests”, which may let Hamas torpedo anything it does not like.

So the deal's main import is not the implicit recognition, but that it calls for a national unity government—something that Hamas tried to get Fatah to agree to before, but failed. If there are any Hamas figures left free to take part in it, such a coalition might defuse the tensions between Hamas and Fatah militias that have erupted in recent weeks. It would restore authority to the moderate Mr Abbas. But it would also widen the gap between Hamas's “inside” and “outside” leaderships. Fatah, too, retains the deep internal splits that contributed to its election defeat. It remains unclear what such a government can achieve, especially if the world maintains its economic boycott of the PA. And it may come too late to help Corporal Shalit.

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Iraq

A peace plan that needs fleshing out

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From The Economist print edition

A nice-sounding conciliation plan may be too vague to improve things soon

AFP

Maliki's microphone message

IT WAS with much fanfare that Nuri al-Maliki, Iraq's new prime minister, unveiled a 24-point "national reconciliation initiative". Its main purpose is to win over enough Sunni Arab insurgents to stem the tide of bloodshed that continues to engulf Baghdad and many of central and western Iraq's cities, especially those with mixed Sunni and Shia populations. His plan was bolstered by the endorsement of the largest Sunni block in parliament and by a prominent Sunni clergyman. Describing it as "an olive branch offered to those who want to rebuild our country", Mr Maliki drew further hope from a series of claimed meetings between his deputy prime minister, Salam al-Zubaie, a Sunni Arab, with some seven insurgent groups. Mr Maliki's plan also calls for "talks with other Arab and Muslim governments, especially those that support the terrorists". And the prime minister promised, as a gesture of goodwill, to free at least 2,500 prisoners by the end of June.

Among other sweeteners was the prospect of compensation for Iraqis who have been "harmed by terrorism or military operations", for government employees who have lost their jobs since Saddam Hussein was toppled, and for people who have been displaced. A National Council for Reconciliation, with subcommittees in all 18 provinces, is to be set up. And Iraq's "de-Baathification" committee will be reviewed (a promise previously made), so that, in theory, former Baathists, bar the most senior ranks, will not be discriminated against.

But the plan leaves many questions unanswered. One key proposal is for an amnesty to be offered to "all those who have not taken part in criminal and terrorist acts and war crimes and crimes against humanity". It was unclear who among the estimated 20,000-odd insurgents would qualify. Anyone who had killed fellow Iraqis, it was explained, would not be welcome to apply. After several days of confusion, Mr Maliki said that insurgents who had killed American or allied troops could not be embraced either.

The prime minister has also promised "a solution" to the problem of the many militias, including, presumably, Shia ones that have terrorised Sunni civilians, but so far he has issued no firm proposals. Indeed, it is debatable whether he really has the clout to disband the militias, even if he wanted to. On this score, his plan is notably toothless.

Likewise, while asserting Iraq's sovereignty and calling for "measures to strengthen Iraq's armed forces so that they are ready to take over responsibility for national security from the multinational forces", his plan does not mention even a rough timetable—a basic demand of virtually all the insurgent groups.

It is not yet known how serious were the reported meetings between Mr Zubaie and the seven insurgent groups; one of them denies that it had entered into talks. None is thought to be one of the bigger national networks, such as al-Qaeda in Iraq, the late Abu Musab al-Zarqawi's group, or the Islamic Army in Iraq. Western intelligence services have totted up at least 80 different groups; many of them mutate, merge, dissolve and reappear in fresh guises all the time.

But it is notable that Mr Maliki, in contrast to his bumbling predecessor, Ibrahim al-Jaafari, is taking direct responsibility for talking to insurgent representatives. Meanwhile, aides to Jalal Talabani, a Kurdish leader who holds Iraq's largely symbolic presidency, have been parleying with tribal leaders and other people who claim to speak for some of the insurgent bands.

One snag is that the insurgency is decentralised and lacks leaders who are heeded by large numbers of fighters. It is often fuelled by local grievances; many insurgents are racketeering gangsters. But the biggest problem in bringing them to heel is the seemingly unstoppable upsurge in tit-for-tat sectarian violence, especially in Baghdad. Some of the capital's central districts, like the one that Haifa Street runs through, have again become sectarian killing grounds. One al-Qaeda affiliate, the Omar Brigades, which was formed last year specifically to fight the Shia militias, has spread its influence through much of mainly-Sunni west Baghdad. The UN estimates that some 150,000 Iraqis have been displaced by sectarian cleansing. Many young men thus driven out of their homes join insurgent groups or militias, so their numbers may be swelling.

A rare bright spot since Mr Maliki took over is the oil ministry under Hussein al-Shahristani, a Shia scientist. This week he declared that daily output had reached its pre-war level of 2.5m barrels a day, the highest since the Americans invaded three years ago.

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Democracy in the Arab world

Not yet, thanks

Jun 29th 2006 | CAIRO
From The Economist print edition

Recent hopes for the steady advance of democracy are being widely stifled

TWO years ago, Ali Abdullah Saleh, Yemen's president, told fellow Arab leaders to reform, or risk being swept away in a global tide of democratisation. “Trim your hair now,” he warned them, “or someone will shave it for you.” Turning words into deeds, Mr Saleh, who has ruled since 1978, promised to retire at the end of his current term. Last week he changed his mind. Bowing to what he called “the people's pressure”, orchestrated in nationwide mass rallies, he declared his candidacy for elections in September that are likely to prolong his tenure until the end of 2013.

Mr Saleh has a better flair for theatrics than most of the region's other rulers-for-life, but their survival instincts are just as keen. A few years back, and especially in the wake of America's invasion of Iraq, many of them also found it politic to sound responsive to mounting pressure for reform. It was partly internal, inspired by factors such as demography, the fading potency of long-ruling ideologies and the impact of harder-to-control new media such as satellite television. External forces helped, too, most notably the Bush administration's loud championing, echoed by other Western governments, of political freedom as the ultimate foil for extremism.

Responses across the region varied. The leaders of Algeria, Tunisia and Egypt all went to the bother of getting themselves re-elected in contested votes, and Saudi Arabia ran its first ever municipal polls. The legal status of women improved nearly everywhere: Qatar and Kuwait joined most Arab countries by inviting them to vote and run for office. Press freedoms widened notably in some countries, while others, such as Bahrain and Morocco, empowered judicial bodies to look into past human-rights abuses. With Iraqis and Palestinians voting enthusiastically before the world's cameras, even laggards such as Oman and Syria felt obliged to embrace the rhetoric, if not the practice, of political reform.

But now the tide appears to have turned. Syria's leader, Bashar Assad, no longer bothers with any talk of reform; his police have lately arrested dozens of dissidents. Since last year's parliamentary and presidential elections, Egypt's government has backtracked too. Among other measures, it has cancelled some municipal polls, imprisoned the runner-up to President Hosni Mubarak in last year's vote, arrested 600-odd members of the main opposition group, the Muslim Brotherhood, sent police goons to beat up peaceful protesters, passed laws enshrining executive authority over the judiciary and banned two Washington-based institutes that promote democracy from working in the country. The kingdom of Bahrain, once touted as a model reformer, also recently expelled the representative of one of these, the National Democratic Institute for International Affairs.

That's not your funeral

Police in Jordan, another relatively open country, last month summarily jailed four MPs. They had given condolences to the family of Abu Musab al-Zarqawi, the slain leader of al-Qaeda in Iraq, a provocative but hardly criminal act. Morocco, also a star reformer, has lately slapped heavy fines on critical journals. Stiffened rules in Algeria, too, are restricting press freedom. Its president, Abdelaziz Bouteflika, fired his prime minister in May in what was seen as a move to bolster support for changes to the constitution that would let him run for a third five-year term. Though polls were held in Saudi Arabia last year to elect town councils, these have yet to meet. Hints by senior princes at further reform have yet to be translated into action.

Kuwait, where an exuberant general election is under way, seems an exception. Yet the polls were called only after the country's emir, Sheikh Sabah al-Ahmad al-Sabah, dissolved his legislature in a fit of pique

after it threatened to alter districting rules that have long favoured government-backed candidates. With its similar tradition of democracy and openness, Lebanon is another apparent exception. Yet while last year's so-called “cedar revolution” shook up politics, and shook off much of neighbouring Syria's influence, it has not reduced the crippling dominance of sectarian and clan leaders.

Several factors explain the waning of reform momentum. One is the high price of oil. Exporters, from Algeria and Libya to the monarchies of the Persian Gulf, find themselves so flush with cash that they can again buy off dissent. But a bigger factor is the advance of Islamist opposition groups. In the past year, religious parties have crushed secular rivals in Iraq, Hamas has captured the shaky government of Palestine, Islamists have performed strongly in Saudi Arabia's polls, and Egypt's Muslim Brotherhood has won an unprecedented fifth of parliament's seats. More stunning yet, though without any recourse so far to the ballot box, the nascent Islamist movement in Somalia (a non-Arab member of the Arab League) appears close to uniting much of that chaotic country.

The Islamist surge has frightened not only the region's governments, but also foreign promoters of democracy. In particular, the quandary posed by Hamas has chilled American enthusiasm for change. Amr Hamzawy, who assesses Arab political reform at the Carnegie Endowment in Washington, DC, describes with dismay how Western officials and academics at a recent conference appeared to “wash their hands of supporting democracy in the Arab world”. During debates in America's Congress over proposals to slash aid to Egypt as a penalty for failing to reform, numerous speakers cited the danger of empowering Islamists and undermining a government which, though distasteful, has served American interests.

Similar signs of a return to realpolitik have been noted with relief by Arab governments. Concerns over Iran's nuclear plans have restrained Western criticism of democracy-shy but pro-Western neighbours like Azerbaijan and the countries of Central Asia. America restored ties with Libya, rewarding its government for scrapping weapons programmes while for the most part overlooking its appalling treatment of its own people. Even Syria, forced out of Lebanon and diplomatically isolated, has escaped severe punishment for defying a long list of Western demands.

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Côte d'Ivoire

Back to reality

Jun 29th 2006 | CAIRO
From The Economist print edition

The game turns out to be not so beautiful

NO COUNTRY needed a good run in the football World Cup more than Côte d'Ivoire. Split in two by civil war since September 2002, everyone, from the minister of sport to rebel leaders, insisted that the World Cup finals, in which their country was playing for the first time, would bring everybody together. After all, the footballers came from all over the country, and for once, so the reasoning went, those in the rebel-held north and the government-held south would cheer for the same side. So the country has been awash in the national flag's orange, white and green, and the mothers of the national team's stars received medals from the government, presumably for having good genes.

It was, therefore, a huge let-down when the Elephants, as the team is known, crashed out of the tournament in the first round, losing their first two games. The mothers, who had fasted for three days before the opening match, apologised to the nation. The country reluctantly returned to the dreary reality of ending its conflict without the healing balm of football. Real peace still seems a long way off.

Elections, already postponed for a year, are due in October, but may be pushed back yet again. The country is still cut in half, with the New Forces rebels controlling the north. They say that they took up arms in part to fight discrimination against northerners and those perceived to be of foreign origin. This remains a genuine problem. A census in 1998 found that 26% of the population is foreign; Côte d'Ivoire has coped poorly with successive waves of immigration from poorer west African neighbours. Northerners, who are viewed as foreign, often find it hard to get identity cards and other official documents. Now the New Forces say they will not lay down their arms until a full “identification programme” has been carried out. About 3m Ivorians (out of a total of about 17m) have no proper identity papers, though many of these would have a right to full citizenship.

The prime minister, Charles Banny, who was appointed by the UN last year, has had some success. He has persuaded the military wings of both sides to talk to one another and—to great fanfare—started a pilot identification programme, which lasted a week in seven small areas of the country. A limited number of loyalist and rebel troops were moved to cantonment sites in preparation for full disarmament; all sides have accepted, albeit grudgingly, that disarmament and identification should happen simultaneously.

AFP

The Elephants let them down

But the process has stalled. The militias who support President Laurent Gbagbo have not been disbanded. The four main militias in the western town of Guiglo have twice missed deadlines to lay down their weapons; until they are disbanded, the New Forces will not disarm. The UN has 7,000 peacekeepers in the country, along with 4,000-odd French troops, but will not consider disarming either side.

Meanwhile, the economy falters as international confidence in the country's ability to get out of its mess drains away. Côte d'Ivoire, which was once the region's economic success, has missed loan repayments to the World Bank and the African Development Bank, which has pointedly moved its headquarters from Abidjan to Tunisia.

A long stalemate looks likely. Mr Gbagbo, who won an election in 2000 when his main rivals were barred from running, is unlikely to win a free and fair poll. His mandate was extended for a year the last time elections could not be held, but the UN secretary-general, Kofi Annan, has already suggested it may not be renewed when it runs out in October. Yet that may well spark further unrest; it is hard to see where the country would go from there. The rebels have gained in power and wealth since 2002, and will not give up easily, while the UN does not have the strength or the will to do much more than cajole the two sides to stay apart.

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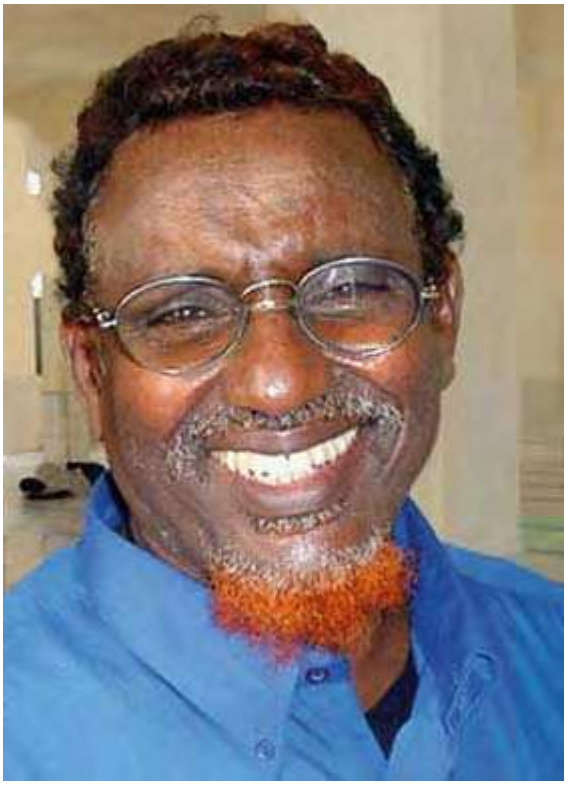
Somalia

Not the new Taliban, yet

Jun 29th 2006 | NAIROBI
From The Economist print edition

Fathoming the latest winning Islamists

AP



Aweys says he never bearded al-Qaeda

Get article background

THESE are precarious days for Somalia. If its weak transitional government and the surging Islamists can be made to share power after the two sides signed a tentative peace agreement last week, then the country could see its first peace since 1991. If not, Somalis could fall into a proxy war of Afghan proportions, only this time with the Americans backing the secular forces and the Islamists getting help from those who once sympathised with Afghanistan's mujahideen. Much will depend on how Somalia's Islamists behave.

It was natural, a few weeks after taking control of Mogadishu and much of southern Somalia, that the Islamists would fashion themselves into a more cohesive political unit. They have changed their name—the Islamic Courts Union is now the Supreme Council of Islamic Courts—and have divided administrative powers between a legislative assembly and a smaller executive: all very orderly. But what alarms people, particularly in the West, is the appointment of Sheikh Hassan Dahir Aweys as head of the assembly.

Mr Aweys, a red-bearded septuagenarian and former Somali army officer, is a radical Islamist. His vision for Somalia has no room for Western-style democracy. He criticises the transitional government, not least because it is financed by foreigners (such as the UN) and is politically closer to Ethiopia than to the Islamists.

American intelligence has Mr Aweys on its wanted list for his involvement in al-Itihaad al-Islamiya (Islamic Union), a Somali Islamist organisation active in the 1990s which may have had a small supporting role in al-Qaeda's bloody terrorist attacks in Kenya and Tanzania in 1998. Mr Aweys, who laid low for several years before resurfacing last autumn, now distances himself from al-Qaeda. He was, anyway, probably always closer to the social doctrines of the Muslim Brotherhood, founded in Egypt, for whom “the Koran is the constitution”. He advocates a rigorous application of *sharia* law, such as this week's sentencing to death by stoning of five men in the town of Jowhar, after they were convicted of rape by an Islamic court.

A further complication is the relationship between Mr Aweys and Abdullahi Yusuf, the president of the transitional government. When al-Itihaad had a training camp in Las Qoray, a village on Somalia's northern coast, it was Mr Yusuf, then a local warlord, who crushed it and scattered the Islamists across the Red Sea to Yemen and south to Mogadishu. Both men have tried to kill each other, and both are said to regard the other as an obstacle to Somalia's development. Working together may be beyond them.

But it may not come to that. America has already said that it will not talk to Mr Aweys, but has kept the door open to other Islamists. That could strengthen the hand of moderates in the Supreme Council. Besides, it is not clear to what extent Mr Aweys speaks for the majority of southern Somalis. They were happy enough to be liberated from the tyranny of the American-backed warlords by the Islamist militias, but that does not mean they would welcome a Taliban-style regime.

Some of the Islamists who signed the peace deal with the transitional government in Khartoum last week were businessmen; their interest is more commercial than spiritual. It was perhaps a sign of things to come when several hundred youths rioted near Mogadishu this week after Islamist gunmen allegedly tried to stop them watching the football World Cup. There was no such ban, insisted the embarrassed Supreme Council. “Football is not against Islam.”

Foreign diplomats trying to mediate between the Supreme Council and the transitional government are trying to engage moderate Islamists without alienating radicals like Mr Aweys. They then hope to nudge the two sides into negotiating some sort of more permanent deal when they next meet, in a few weeks time. But a miscalculation could provoke more killing. Already, the Islamists have broken the ceasefire by attacking south from Mogadishu. Still more worrying is a push by the African Union, backed by Ethiopia, to supply arms to the transitional government.

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Russia's presidency

Enter a contender

Jun 29th 2006 | MOSCOW
From The Economist print edition

An early look at one of the two leading candidates for the presidency in 2008

"WHAT is the most important thing for us?" Vladimir Putin asked rhetorically in his May state-of-the-nation address. "Love!" cried a voice. "Correct", said the Russian president. "In the Ministry of Defence," he added, as the cameras panned to Sergei Ivanov, the defence minister, "they know what the most important thing is." At first the origin of this interjection was unclear, but Mr Ivanov himself now admits it. "I reacted spontaneously", he claims. "Love is the most important thing," he repeats, echoing John Lennon.

This incident fed promptly into the debate in Russia about the next president. Such is Mr Putin's grip on power that the only political uncertainty in Moscow nowadays is over the identity of his successor (to be rubber-stamped by an election in March 2008). The opacity of the Kremlin means that soothsayers pore over the runes of Mr Putin's speeches and appearances for clues. For many, the state-of-the-nation-speech, which dwelt on social issues and military reform, confirmed that there were two main candidates: Dmitry Medvedev, who oversees the social agenda, and Mr Ivanov. Both became deputy prime ministers last year, and both have been conspicuous on television.

Love is not the first idea that would spring to the minds of most observers of Mr Ivanov. Many in Mr Putin's ruling clique share some of his past in either St Petersburg or the KGB—or, in Mr Ivanov's case, both. Mr Ivanov, who speaks English fluently from his London days, and has a certain spooky charm, says he understands the worries that some harbour about his (and Mr Putin's) KGB past, but he insists that they are unfounded. Even so, his geopolitical views might reinforce worries about Russia's future, and add to anxiety among Russian liberals about the political ascendancy of former *chekists*.

Take the sensitive matter of the "colour" revolutions in Georgia (2003) and Ukraine (2004). These, says Mr Ivanov, were financed by "Western countries" that he declines to name. Were Ukraine to join NATO, as its new government hopes (see article), "it will definitely cause a lot of problems in bilateral relations". For example, says Mr Ivanov, a visa-free regime with a NATO member is hard to imagine. The ex-Soviet neighbours, he insists, must stop relying on Russian subsidies (ie, cheap gas); they should look rather for support from what he calls "the other side".

Such talk jars with Mr Ivanov's other claim, that “the cold war is gone.” Some of his concerns about Western behaviour, such as America's putative deployment of missile-defence systems in central Europe, seem reasonable; others, less so. Mr Ivanov sees foreign lobbying inside Russia as a big threat to its security. Outside criticism of Russia's supposed anti-democratic tendency, he says, springs from an aversion to its new strength: in the 1990s, when Russia was weak, “nobody criticised Russia as a non-democratic state”. He is “very sceptical about the concept of democracy-spreading”, adding that “some of the democracies which you now applaud are not democracies at all.” Mr Ivanov classes Russia as one of the “sovereign democracies”—countries able to make autonomous decisions. There are very few such countries, he adds.

Questioned about Russia's problems, Mr Ivanov tends to produce a litany of familiar answers: they come from outside, they afflict other countries too, or they are not really problems at all. Violence in Chechnya and across the north Caucasus is part of a general “rim of instability”, and a consequence of the Soviet Union's collapse (rather than, say, the result of Russian policy). Even if there are human-rights abuses in Chechnya (and Mr Ivanov sees no hard evidence), Iraq and Afghanistan are worse. The shocking, institutionalised abuse of Russian army conscripts is, he says, exaggerated: besides, military bullying “exists in any army.”

According to some, Mr Ivanov and Mr Medvedev are now competing in a Russian-style primary: their performance in office over the next year may determine which man gets Mr Putin's nod. Mr Ivanov's main task—reform of the armed forces, particularly the drafting of extra conscripts, while reducing their term of service from two years to one—could yet make him unpopular. Less public considerations may also undo him: some Kremlin insiders who have profited from the redistribution of assets under Mr Putin are said to be wary of him, and he has no strong power base of his own.

For the moment, Mr Ivanov neither admits nor disavows presidential ambitions. “You cannot sit on two chairs”, he says. Mr Putin is unlikely to make his choice public, for example by choosing a new prime minister, until next year. To move any sooner would compromise his ability to hold the ring between competing Kremlin clans. The recent sacking of the top prosecutor (who afterwards, somewhat bemusingly, swapped posts with the justice minister) was widely seen as a way of rebalancing these clans.

There may still be time for a lesser-known candidate to emerge, just as Mr Putin did in 1999. Indeed, he has himself hinted that this may happen again. It is also conceivable that he may reverse his avowed decision not to change the constitution so that he can run for a third presidential term. Some in the Kremlin are urging this, either out of self-interest or because they worry that his popularity might be hard to pass on to a new man.

One thing seems certain: Mr Putin will get his successor in. Opponents such as Mikhail Kasyanov, his first prime minister, who plans to run in 2008, are routinely harassed. The Kremlin even has its own youth groups to take on would-be colour revolutionaries. And the suborned media, especially television, make it hard for any rival voices to be heard. Igor Shuvalov, a presidential aide, explains his boss's media strategy with commendable candour. The president, he says, “understands that people watch television”; television stations “can say whatever they like, but not a bad word about the president.” Mr Putin, says Mr Shuvalov, will keep control of the airwaves, “in order to bring proper people into the Kremlin in 2008. That's his way of doing business.”

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Ukraine's new government

Hope over experience

Jun 29th 2006 | KIEV
From The Economist print edition

Will the second "orange" coalition last any longer than the first one?

"NO LOVE, no romance, no illusions." It is like a second marriage, says Oleg Rybachuk, head of Ukraine's presidential administration, of the politicians who led the "orange" revolution of 2004 and are now re-forming the coalition that collapsed acrimoniously last year, only this time with clear-eyed pragmatism.

AP

If at first you don't succeed

The Socialists, President Viktor Yushchenko's "Our Ukraine" and the block led by Yulia Tymoshenko, the prime minister whom he sacked, have agreed to form a new government, on the basis of their small majority in parliament. (This week a sit-in by the Party of the Regions, or PRU, which won the most seats in March's parliamentary election, delayed the formalities.) "History has given us a second chance," proclaims Ms Tymoshenko, who is getting her old job back. She had insisted on that throughout three months of horse-trading since March.

Was there any other way? Mr Yushchenko's lot had flirted with the PRU, led by Viktor Yanukovich, the disgraced loser of the presidential election of 2004. The PRU, says Mr Rybachuk, was "like a lion waiting for one of [the orange parties] to leave the camp". Although it would have annoyed the Americans, an alliance of the two Viktors might have made for decent economic policy, and helped to pacify the eastern and southern bits of the country that back Mr Yanukovich. But it would have outraged those Ukrainians who thought the revolution meant the end of Mr Yanukovich and his ilk.

An immediate question is whether the new orange government will last any longer than the old one. There are grounds for modest optimism. As Mr Rybachuk puts it, the electoral lull before the presidential vote in 2009 means that Ukraine's politicians "don't have to promise everybody paradise immediately". Perhaps Ms Tymoshenko will learn from some of the populist errors she made last time, such as the imposition of price caps on fuel and other commodities. In any case, the post-revolutionary expectations of Ukraine's voters are gradually obliging its politicians to govern in the interests of the country, rather than simply their own.

Unfortunately, the fissures that opened in the orange team soon after it booted out the old regime

remain. The Socialists, for example, have their own ideas about privatisation, and are sceptical about the government's avowed keenness to join NATO. And then there is the question of gas.

Before the election, Ms Tymoshenko vowed to review the deal struck in January, under which Ukraine buys Russian and Turkmen gas from RosUkrEnergo, a shady intermediary, at double the former price—a price now likely to rise yet again, especially since the Turkmens want more for their gas too. Ms Tymoshenko is opposed to the use of intermediaries (“we have reached the link before the last”, she says of the RosUkrEnergo mystery). She says she plans to end Ukraine's energy dependence on Russia. Big protests were staged in Kiev this week over proposed rises in domestic gas tariffs.

Ideology is not the dividing line in Ukrainian politics: personal ambition and greed are more important. If a coalition of the Viktors looked unlikely, so, after the vitriolic mud-slinging last year, when Mr Yushchenko accused Ms Tymoshenko of corruption, did an orange revival. Has she forgiven the president? “God forgives”, Ms Tymoshenko replies piously. She complains too that business and politics in Ukraine are still too intertwined. And she promises that she will not stand against Mr Yushchenko for the presidency in 2009. He is evidently calculating that it is safer to have her inside the government than in opposition. Do not be too surprised if neither the coalition nor Ms Tymoshenko's pledge endures.

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Italy's referendum

Basta, again

Jun 29th 2006 | ROME
From The Economist print edition

Three strikes against the centre-right, but it is not out—yet

AP

IT HAS been another bad week for Silvio Berlusconi. A referendum has inflicted on Italy's former prime minister his third, highly personal, reverse in three months, after his defeats in a general election in April and in local and regional elections in May. In the latest vote, the electorate rejected one of the most far-reaching reforms that Mr Berlusconi attempted. A bill approved by parliament last November would have given the constitution its biggest shake-up since 1948, transforming Italy into a quasi-federal country like Spain.

But Italians are not Spaniards. They traditionally reserve their loyalties not for their region, but for their home town or city. It was not, therefore, surprising that they voted to throw the measure out. What was surprising was the size of the majority (61%-39%), and the relatively high turnout of 52%—the highest in any Italian referendum for over a decade. This was not just a bill that most voters disliked; it was one they seemed determined to kill.

The bill was originally conceived by the Northern League, led by the colourful Umberto Bossi. Although the smallest of the four main parties on the centre-right, the League has always had enough votes in parliament to hold its coalition partners to ransom. Its main goal has been more devolution of power to the regions.

The eventual reform incorporated other proposed changes to the constitution, notably a strengthening of the powers of the prime minister. Some argued that voters would be baffled by such complexity. But the result suggested that, on the contrary, most saw the measure in simple terms, as an attempt to give the already rich north the means by which to become richer. Italy's poorest region, Calabria, returned the highest no vote: 82%.

The referendum gave a further boost to Romano Prodi's centre-left government, though it is still a divided creature. For Mr Berlusconi, it was a triple rebuff. First, it was a defeat for the confrontational style of politics he continues to embody. The referendum was held only because, under pressure from the League, Mr Berlusconi rammed the reform through parliament by a simple majority, rather than strike a deal with the opposition to secure a two-thirds majority in each parliamentary chamber.

Second, the outcome undermined Mr Berlusconi's claim that, although the south and centre of Italy are against him, the north is on his side. Turin, Milan and Venice voted against the reform. It gained a majority north of the Po only because of the small-town vote in the League's strongholds of Lombardy and Veneto.

Third and most important, the referendum has dealt a possibly fatal blow to Mr Berlusconi's underlying political strategy of the past seven years. This has consisted of doing everything necessary to satisfy the League, all the while disciplining the rest of the centre-right with the threat of a League defection such as the one that brought down the first Berlusconi-led government in 1994.

The League, with its leader already much diminished by a stroke, is in disarray after this week's result. Mr Bossi has postponed indefinitely its annual rally. A once-prominent Leaguer has even suggested it

should wind itself up so its members can join Mr Berlusconi's party, Forza Italia. And that poses a bigger question: what is the future for Forza Italia and its leader, who will be 74 when the next general election is due? This week may have marked the beginning of his political end.

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Italy and the Mafia

Murky goings-on

Jun 29th 2006 | PALERMO
From The Economist print edition

Appeal hearings begin in a Mafia case that may touch Silvio Berlusconi

WHO provided the early finance for Fininvest, the parent company of Silvio Berlusconi's business empire? Prosecutors hope to find an answer during appeal proceedings that have just begun in Palermo, in a case involving Marcello Dell'Utri, a close associate of Mr Berlusconi and one of the founders of his Forza Italia political party. Mr Dell'Utri, who was returned to parliament again in April's election, is appealing against a nine-year prison sentence for association with the Mafia that was handed down in December 2004. The prosecution is, in turn, asking for the sentence to be increased to 11 years.

Mr Berlusconi is not directly involved in the case. When the prosecutors sought to question him in November 2002, as a witness, he availed himself of the right of silence. The prosecutors say that there are “many obscure areas in the birth of Fininvest”, and that there were substantial financial flows “for which it has not been possible to arrive in any way at the source of the money involved”. They want to present new evidence during the appeal that might shed more light on these matters.

Part of that new evidence is testimony given in 2004 and 2005 during inquiries in Rome into the murder in June 1982 of Roberto Calvi, Banco Ambrosiano's chairman, just before the bank's collapse. The prosecutors in Palermo want to ascertain if Mr Calvi, whom they describe as having been a beneficiary of substantial Mafia financing, made any investment in Fininvest in the first half of the 1970s.

The prosecutors note that a senior official from the Bank of Italy, Francesco Giuffrida, who was seconded to help the magistrates in Rome with their investigations, had uncovered various foreign operations. One of these involved Capitalfin International, which set up a subsidiary called Fininvest Limited-Gran Cayman in 1974. Capitalfin International, in which the Banco Ambrosiano group later acquired a big stake, had links to the P2 masonic lodge, of which both Mr Calvi and Mr Berlusconi became members.

Mr Giuffrida helped prosecutors in the case against Mr Dell'Utri, giving evidence in Palermo in May 2002 about the establishment of Fininvest in Italy and about its financial flows in the late 1970s and early 1980s. Earlier this year, Fininvest initiated legal proceedings against him, saying that his work for the prosecutors had been negligent and had caused it damage. But after examining Mr Giuffrida in 2002, the prosecutors drew the court's attention to a number of attempts that might have been made to intimidate him.

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Ireland's unpopular government

Bertie's blues

Jun 29th 2006 | DUBLIN
From The Economist print edition

Troubles ahead of next year's election

AS BERTIE AHERN starts the fifth and final year of his second term as prime minister, his centre-right government seems to have become ever more accident-prone and unpopular. Despite Ireland's economic boom, voters are in a grumpy mood. Opinion polls suggest that Mr Ahern's coalition, composed of his Fianna Fail party and the Progressive Democrats, may well lose next year's election.

After nine years in office, Mr Ahern's government appears to many observers to be tired and out of touch with an electorate that is increasingly unhappy over the quality of public services. Last week, sharp new divisions emerged in both the ruling parties: a minor revolt by backbenchers in Fianna Fail, and an abortive leadership challenge within the Progressive Democrats. Such rumblings raise even more serious doubts about the government's re-election chances.

Oddly, the biggest concern of all is that, despite economic growth of as much as 5% this year, and virtual full employment, Irish consumers are so unhappy. One problem is that inflation has risen steadily in recent months, to 3.9%. Higher interest rates have also made it much harder for first-time buyers to afford a home. An average house in Ireland now costs close to €300,0000 ($380,000), nearly ten times the average level of industrial wages.

The next worry is the managerial ability of the government. It mishandled a sudden crisis after the Supreme Court struck down a law on statutory rape as unconstitutional. The government's legal adviser, the attorney-general, heard of the case only after the court's decision, which resulted in the early release from jail of a convicted child rapist. An immediate public outcry led to a rushed appeal by the state, after which the rapist was re-arrested and ordered to finish his sentence. But the whole affair made the government look thoroughly incompetent.

Last week some of Mr Ahern's own backbenchers accused his government of ignoring their views. At the same time his coalition allies, the Progressive Democrats, have been in turmoil. An unexpected challenge to the party leadership of Mary Harney, who is deputy prime minister and health minister, by Michael McDowell, the justice minister, was rebuffed. But, in a leaked letter, party officers have described the relationship between the two ministers as “dysfunctional”.

One recent poll gave the rival centre-left coalition of Fine Gael and Labour, which last held office in 1997, a nine-point lead over the government. Mr Ahern's hopes seem now to lie with a subsidised savings scheme that pays out over the next year. Under the scheme, the government provides a top-up of €1 for every €4 that an investor saves. Two out of three adults have participated, and savers will get back some €15 billion when it matures. Most of the payments will be made next May, just in time for the election.

Mr Ahern seems to be banking on this huge pay-out, perhaps boosted by a giveaway budget in December. Yet with rising inflation and an overvalued property market, more money may be the last thing the economy needs. And it may prove insufficient to appease restless voters, who perhaps simply want a change after ten years of the same prime minister.

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France's troubled suburbs

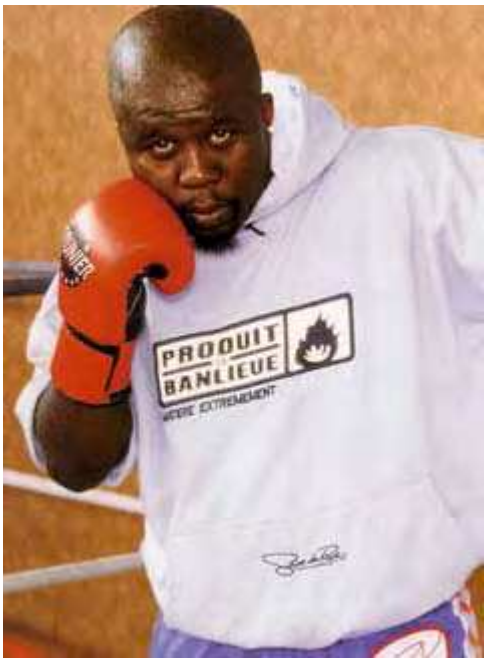
Rebranding la banlieue

Jun 29th 2006 | CLICHY-SOUS-BOIS
From The Economist print edition

An attempt to brush up the image of Parisian suburbs

IN MOST countries, the word “suburb” evokes clipped hedges, wide driveways and tranquillity. In France, by contrast, *la banlieue* suggests torched cars, rioting youths and high-rise housing projects. Originally a medieval word, meaning a place a league (*lieue*) away from a city, but subject to the authority (*ban*) of the city's feudal overlords, it has now become synonymous with a no-go zone. Eight months after the riots of last autumn, those who live and work in *les banlieues* are trying to rebrand them.

“We want to combat the caricature that Clichy equals the 200 or so youngsters who rioted,” says Claude Dilain, the Socialist mayor of Clichy-sous-Bois. It was in this multi-ethnic suburb of some 28,000 people that two teenagers were electrocuted as they fled the police late last October, prompting three weeks of riots. Further explosions cannot be ruled out: a toxic mix of poverty, criminality and unemployment persists, and recently the neighbouring suburb of Montfermeil saw a sudden outburst of street troubles.



Extremely dangerous suburban

Yet Mr Dilain argues that “we need to change the perception that French society has of the *banlieues*, and not just turn our backs on them.” The local council has invited a dozen photographers to take snaps of the suburb in an exhibition, to be called “Clichy sans cliché”.

Clichy is not alone. Mayors from various Paris suburbs, of different political stripes, have launched a joint communication effort to improve the image of the *banlieues*. Local businessmen in Seine-Saint-Denis, known by its 93 postcode, and home to much of the rioting, have been promoting the economic vigour of their suburbs. Property developers have been putting up shiny new office blocks in Seine-Saint-Denis, luring back-office activities out of expensive central Paris. Francis Dubrac, of the Committee for Economic Expansion 93, says this is a “land of businesses, a vibrant territory, rich in cultural events...animated by a young and dynamic population.” Beyond the grim tower blocks, which seemed on television screens to be entirely on fire, are neat rows of houses, with shutters and net curtains.

Some of the rebranding adds a humorous twist of self-parody. Local councils in Seine-Saint-Denis recently held “Banlieues Blues”, a jazz festival, which has been going for years but took on a new symbolism after the riots. Its purpose, according to Xavier Lemettre, the director, is “to break down the barriers that sometimes separate different forms of music, and too often different people.” More defiant still is “Produit de Banlieue”, a clothing brand launched from the suburbs, which makes hip-hop-style hooded tops and baggy T-shirts, popular with locals. Its slogan? “Extremely dangerous material”.

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Charlemagne

The absorption puzzle

Jun 29th 2006
From The Economist print edition

Europe's latest big idea is stupid and dangerous

THE European Union: tougher and less absorbent than ever! It sounds like communist-era toilet paper. But that is roughly the slogan that the EU is now adopting. Its latest intellectual fad is the notion of "absorption capacity": a label for its supposed (in)ability to take in new members. The European Commission gave the idea its imprimatur last November. At their recent summit, Europe's heads of governments instructed the commission to draw up a report on how much absorption capacity there is. After all, the club cannot go on taking in new candidates without any regard to public opinion or their impact on current members. Yet this sudden burst of interest in such a vague idea is worrying. Not only has nobody sought to define the concept, but it could prove misleading, dishonest and damaging.

The term first cropped up in 1993, at a time when former communist countries from central Europe were clamouring at the doors. A summit in Copenhagen laid down the terms of entry for these and other would-be members: the so-called Copenhagen criteria. Among other things, these decreed that "membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights". But along with the criteria was a further declaration: that "the union's capacity to absorb new members...is also an important consideration in the general interest of both the union and the candidate countries."

The distinction between a formal "criterion" and a mere "consideration" sounds abstruse and semantic, but in practice it has been vital to the EU's recent expansion. If applicant countries meet the Copenhagen criteria, they are admitted. It is their readiness that matters; the union's capacity to absorb them is secondary, as befits a mere consideration.

Ostensibly, this has not changed. The summit's president, Austria's Wolfgang Schüssel, confirmed that absorption capacity had not been upgraded. The president of the commission, José Manuel Barroso, spelled this out further. "This is not a new criterion—I repeat, not a new criterion."

Maybe, yet absorption capacity now seems far more important than it did. The big EU expansion of May 2004 and the start of membership talks with Turkey last October have provoked a backlash against enlargement. France and Austria have both said that they will put Turkey's entry to a referendum. In

commissioning a report on absorption capacity, the summit gave the game away: it instructed the commission to “cover the issue of present and future perception of enlargement by citizens.” In other words, the question is no longer only, are new members ready; it is also are old ones prepared? Absorption capacity is an attempt to measure the old members' readiness.

In a narrow, technical sense, this may simply mean thinking through the consequences of enlargement, which seems sensible enough. For example, every member now has a commissioner, but the current treaty says that, once the EU has more than 25 members, there must be fewer than one commissioner per country. Bulgaria and Romania will become the 26th and 27th members in 2007 or 2008. Further enlargement will also have a budgetary impact. Most of the EU's money goes to farmers or to poor areas—and Turkey (for one) has plenty of both.

Manifestly, popular concerns over enlargement must be mollified if enlargement is to be a success. Surprisingly, some of those who have been doing this most are German and Austrian Christian Democrats, who have long worried about further expansion, especially to Turkey. But what is disturbing about absorption capacity is the way in which the idea is now being applied. Consider the context. Three months before the summit, EU foreign ministers meeting in Salzburg backpedalled from a 2003 promise that Balkan countries would become members when they were ready, just as other countries from central and eastern Europe had done. Only days before the summit, negotiations with Turkey were on the brink of collapse after a spat between Turkey and Cyprus. In these circumstances, absorption capacity has become a buzz phrase for those who really want to stop the whole process of expansion dead.

Misleading economics

Yet the term is fundamentally misleading when applied to an organisation such as the EU. It originates in development economics, and it refers to a country's ability to use external assistance effectively. Countries genuinely do absorb foreign aid. Their ability to do so can be measured and, to some extent, predicted. That gives the term a gloss of scientific objectivity that, in the context of the EU, is completely bogus. For, as Carl Bildt, a former Swedish prime minister, points out, the EU does not “absorb” members. It simply adds them. The EU has not absorbed Britain or France (perish the thought). The capacity to absorb other countries should not be a new requirement for it.

Moreover, argues Frank Vibert of the European Policy Forum in London, absorption capacity is intellectually dishonest. It implies that there are principles at stake in enlargement that can be described and measured impartially. In reality, there are individual applicants—Turkey, say, or Croatia—that pose particular problems of their own, most of them political in nature. And there are institutional questions, such as how commissioners should be chosen or how to weight members' votes. But these do not need a grand intellectual framework for debate.

Indeed, talk of absorption capacity misunderstands the nature of the EU. It is not a club with a fixed lump of benefits that get used up when it adds new members. It is more like a network in which the benefits of membership increase as more members join. To debate and define absorption capacity is, strictly, to beg the question: ie, to assume the answer that you are pretending to look for. It could easily become a way of stopping enlargement—perhaps the EU's greatest single achievement—altogether.

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Housing market

Priced to perfection

Jun 29th 2006
From The Economist print edition

An overvalued market is vulnerable to higher interest rates

DURING the past decade Britain's housing market has had its most sustained boom in post-war history. Between 1997 and 2006, house prices rose by 175%, one of the biggest increases among developed economies (see first chart). At its peak, in 2002 and 2003, house prices were soaring by over 20% a year.

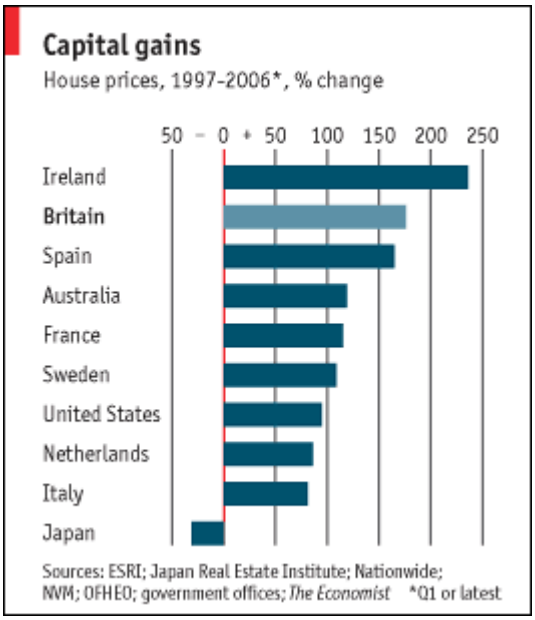
A bubble had emerged, as Gordon Brown, the chancellor of the exchequer, acknowledged last autumn. By then, it was already deflating. In 2005 residential-property sales in England fell below a million for the first time since 1996. House prices stopped rising for several months.

On past form the slowdown seemed likely to presage a long slump. The boom was the fourth since the early 1970s, and on each of the three previous occasions a bust had followed. At the end of 2005, according to the OECD, house prices were about 30% above their trend level.

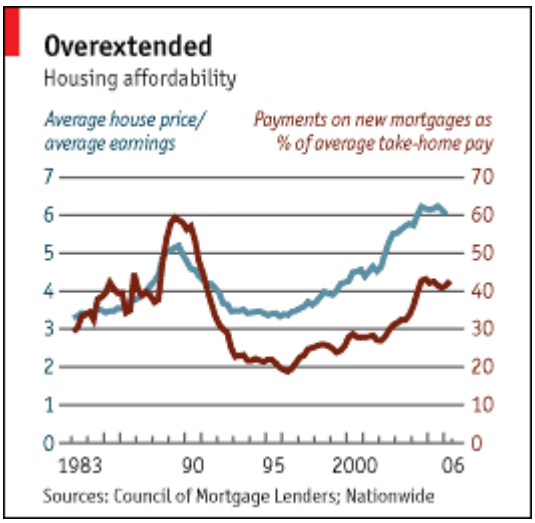
The market staged an unexpected recovery, however. Property transactions picked up. Monthly mortgage approvals for house purchase, which had slumped to 76,000 in November 2004, recovered to 117,000 in May of 2006. House prices have also perked up. Fionnuala Earley, chief economist at Nationwide Building Society, now expects house prices to rise by around 5% in 2006.

The housing market appears to have stabilised at much higher valuations than were previously reckoned possible. A common measure of affordability is the ratio of average house prices to average earnings, since income must ultimately pay for the

acquisition of a property financed with a loan. Looked at this way, homes are even more overvalued than they were at the peak of the boom in the late 1980s: the ratio stands at 6.0, compared with 5.2 in the third quarter of 1989. Much the same message emerges from another valuation method, which, rather like the price-to-dividends ratio for equities, measures the relationship of house prices to rents.



Yet such yardsticks are not the final word. When homebuyers work out whether a property is affordable or not, the cost of servicing a new mortgage as a chunk of take-home pay is more salient. On this basis, valuations are also stretched, but homes are still considerably more affordable than they were at the end of the 1980s (see second chart).


Overextended
Housing affordability
Average house price/ average earnings
Payments on new mortgages as % of average take-home pay
7 6 5 4 3 2 1 0
70 60 50 40 30 20 10 0
1983 90 95 2000 06
Sources: Council of Mortgage Lenders; Nationwide

The decline in borrowing costs over the past decade goes a long way to explaining why house prices have proven so irrepressible. Most of the fall in interest rates has arisen from the collapse in consumer-price inflation. In itself, that makes no difference to the real cost of servicing a loan over its lifetime. It does affect the timing, though. When inflation is high, the burden is "front-loaded" in the early years of the loan, but then eases as the real value of the debt is swiftly eroded. When inflation is low, the initial payments are more bearable but more of the real debt persists, which shunts a bigger share of the costs into the later years of the loan.

This fall in the initial debt-servicing burden on mortgage borrowers has underpinned the rise in house prices over the past decade. Homebuyers have also benefited from greater competition in the market. This has whittled down the margin between banks' deposit and home-loan rates, so lowering the cost of mortgages.

Buyers have also been encouraged by the Bank of England's quarter-point cut in the base rate to 4.5% last August. This followed a tightening in monetary policy that lifted the base rate from 3.5% in October 2003 to 4.75% in August 2004. A more important relief to homebuyers over the past couple of years, however, has come from unusually low longer-term interest rates.

British mortgages have customarily been at variable short-term rates, closely tied to the Bank's base rate. But since the start of 2004, the share of fixed-rate loans being taken out has risen from 30% to 70%. Most of these are for brief terms, typically two or three years, but they have allowed borrowers to exploit the fact that longer-term rates have been lower than short-term ones. The overall effect has been to offset about half the Bank's monetary tightening, estimates David Miles, chief UK economist at Morgan Stanley.

Too good to last?

The resilience of the housing market owes much to these exceptionally benign credit conditions. The recent upsurge in immigration may also be supporting the market. But purely domestic factors such as planning restrictions, by contrast, are less important than is sometimes suggested. Other countries—notably Australia—have also avoided a bust in their housing markets, and have instead seen price increases flatten out. This suggests a common cause: low interest rates worldwide.

But what has been given can be taken away. Monetary policy around the world is tightening to keep inflation at bay. The Bank for International Settlements—the central banks' bank—said on June 26th that the squeeze must continue. The Bank of England is expected to push the base rate back up to 4.75% later this year.

Britain's homebuyers are vulnerable to quite small increases in the cost of mortgages because they have taken on so much debt during the good times. Overall household borrowing has risen from 110% of disposable income in 2000 to 150% at the start of 2005. The burden of repaying so much more debt means that the total servicing charge is high even at low interest rates.

The most frightening words in the financial lexicon are that it's different this time. This refrain, a favourite of boomsters, was much in vogue at the time of the dotcom bubble. It remains just as suspect when applied to a housing market that is unnervingly priced to perfection.

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Anglican Communion

Just good friends

Jun 29th 2006
From The Economist print edition

When you're a church, breaking up is hard to do

MANAGING disintegration in a civilised way is a business at which Britain's establishment, for obvious historical reasons, excels. Think of the Empire's seamless transformation, through an infinite number of small steps, from the world's mightiest power into a worthy talking-shop called the Commonwealth.

Perhaps a similar process of managed, but not total, dissolution is now in progress among the world's third-largest Christian community: the Anglican Communion, whose 38 “provinces”, or national churches, account for around 80m believers. With relative bluntness (and in Anglican language, bluntness is always relative) the head of the communion, Archbishop Rowan Williams, has laid out a formula that would allow North American liberals and developing-world conservatives to part company yet remain friends.

Instead of endlessly trying to paper over the cracks, the Archbishop suggested on June 27th, the communion could break up into a core of “constituent churches” willing to sign a doctrinal covenant on homosexuality and other thorny issues and “associated churches” who would do things their own way, opting out of communal decision-making. An ultimatum? No, that would be too rude a word.

What triggered the Archbishop's statement was the general convention this month of America's divided but liberal-dominated Episcopal Church—a meeting that many had seen as the last hope of keeping the communion together. The leaders of America's Episcopalians have been at odds with most of worldwide Anglicanism since the ordination in 2003 of an openly gay bishop, Gene Robinson.

The convention in Columbus, Ohio, might possibly have staved off a breach. A team of senior Anglicans, in a document called the Windsor report, had proposed to make up if the Episcopalians said they were sorry for having ordained Bishop Robinson and vowed not to offend again.

What actually happened has been described by Edith Humphrey, an Anglican theologian, as a “total collapse of the centre”. Rather than hammering out tortuous compromises, there were set-piece battles in which the liberals broadly prevailed.

The biggest liberal gain was the election of a gay-friendly woman, Katharine Jefferts Schori, as presiding bishop. To be sure, the Episcopalians regretted the pain which ordaining Bishop Robinson had caused and the strain it had placed on Anglican unity, but they stopped well short of promising that it would not happen again. Indeed, on June 28th a gay priest was named as a candidate for the see of Newark, New Jersey. No wonder that African conservatives sense that their terms for continuing partnership with free-wheeling Americans have not been met.

This week's proposals for an Anglican Communion of two (or more) tiers sound like an attempt to recognise reality rather than to shape it. The question is how far fast-moving realities will run ahead of the communion's slow-moving and gentlemanly procedures. In America's religious marketplace, notes Chris Sugden, of Anglican Mainstream, a pressure-group, people who are dissatisfied with their parishes or bishops simply get up and leave.

One hard reality is the emergence of transcontinental alliances of liberals and conservatives, undermining the ancient Christian principle that in each geographical area only one bishop should have authority. Up to eight of the 100 dioceses in the United States may soon be looking for “alternative oversight” rather than accept the authority of Bishop Katharine. Such oversight could be exercised directly from Canterbury—the ecclesiastical Mother Country—or else by the African dioceses that have already taken

dozens of disgruntled conservative American parishes under their wings.

Meanwhile the American liberals are seeking allies around the world—Mexico, Brazil, Scotland and New Zealand are among the “provinces” who may follow their lead in opting out of the Anglican hard core. The internet makes it easy for multinational pressure-groups to get organised, and Anglicans are no exception.

In a book published this week, Jonathan Bartley, an Anglican writer, proclaims the onset of “post-Christendom”, in which central authority collapses almost uncontrollably, and the locus of religion moves from the centre to the margins of worldly power structures. His timing may prove very accurate.

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Muslim women

Sisters are doing it for themselves

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Some people hope that women can counter Islamic extremism

ON SATURDAY afternoons devout Muslims gather at the Minhaj-Ul-Quran mosque in north-east London to read the Koran, say their prayers and discuss political issues. But these worshippers, who enter the mosque through the main entrance, are—unusually—women. They all wear the headscarf, and many are in full-length gowns, but their forthright opinions and presence in the mosque challenge assumptions about the subservient place of women in Islam.

Such tolerance is still rare in Britain's mosques. Other countries are further ahead. Last year a Muslim academic, Amina Wadud, caused a storm when she led a mixed congregation in Friday prayers at an Episcopal church in New York (no mosque would open its doors). In January this year a woman conducted *Eid* prayers in Boston. Another then led Friday prayers in Canada in March before a grand mufti. In April Morocco's Islamic Affairs Ministry awarded diplomas to 50 women imams.

No woman holds such a position in a British mosque. Khurshid Ahmed, the chairman of the British Muslim Forum (BMF), a moderate group, says that women are not even represented on most mosque committees. Yet without their influence, he argues, extremism cannot be countered. Other prominent Muslims agree.

For this notion to hold water, two conditions must prevail: women's views must carry weight, and those views must be broadly pacific. Yet many Muslim men do not allow their wives even to work outside the home and are appalled at the thought that they might be active politically. And not all Muslim women are mild as milk. Plenty march with Hizb ut-Tahrir, a hardline Islamist party that is banned in many Middle East countries. The government is considering a ban here too.

Anxious to find avenues into the Muslim community, the government thinks women may be one of them. After the London bombings a year ago, it set up a programme with various Muslim bodies called “Tackling Extremism Together”: one of its seven working groups looked at the role of women. The Home Office, too, financed “Muslim Women Talk”, a series of roadshows around Britain with internet discussions. Its aim was to promote women “as a source of moral authority...key to unlocking the disenfranchisement and disillusion of Muslim youth”.

Lady Uddin, who chaired both groups, says that to achieve this Muslim women must have education and employment opportunities. (Others involved stressed the importance of recognising women as religious scholars and encouraging them to be active in the mosques.) She says that the government, though concerned about the segregation of Muslim women, has ignored suggestions to remedy it. Other women doubt that they will play much of a role in a planned committee to oversee the training of imams, for example.

Some progress is nonetheless being made. The BMF recently appointed a female chief executive and the Muslim Council of Britain, an umbrella group for many organisations, elected a woman, Unaiza Malki, as treasurer in May. Mrs Malki says she is “honoured that a whole load of imams put their trust in me”. But some ask whether political jobs are the best way of giving Muslim women a voice, or whether achieving more autonomy and respect at home should come first.

Salma Yaqoob, the national vice-chairman of the far-left Respect party, is clear that political engagement is essential. She entered politics after September 11th 2001, and was elected in May of this year as Birmingham's first female Muslim councillor. She has faced attacks from both sides, she says: from white folk who saw a woman in a headscarf and suspected she was a terrorist sympathiser and from traditional

Muslim men who believed that a woman's place was in the home. Some extremists issued a *fatwa* against her, and others said her children should be buried with dogs. Her husband was criticised for letting her campaign. Potential supporters were told that it was forbidden to vote for a woman. She won, with almost 50% of the vote, and says that many women appeared at the polls in person, rather than entrusting their postal ballots to their husbands and brothers. “It was not some feminist mission but I'm glad that more women became politicised as a result.”

Others, including academics such as Mona Siddiqui of Glasgow University, doubt whether political representation is all that significant at present. “Having a political voice is not the biggest issue. There are other internal challenges, such as the everyday segregation of men and women—and this has actually increased recently, rather than decreased.” And there are those who worry that appointing or electing women to prominent positions will cause extremists and cultural conservatives to feel even more disaffected.

At the Minhaj-Ul-Quran mosque, Khadijah Atkinson and others eat chocolate muffins as they discuss the role of women in Islam. Miss Atkinson travels around the country, lecturing Muslim women about the need to avoid extremism. She and her moderate friends shudder at the term “feminist”, but also dislike the headscarf-wearing “Hizby” traditionalists. They believe that women's opinions should count, yet they also accept that men should have the final say. If they are to have the role in countering terrorism that they want and others want for them, they will need respect at home. Without it, the hand that rocks the cradle will never rule the world.

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Civil liberties

In a right muddle

Jun 29th 2006
From The Economist print edition

A new proposal for a British bill of rights makes little sense

WHAT on earth is David Cameron up to? His speech this week calling for the 1998 Human Rights Act, which enshrines the European Convention on Human Rights (ECHR) in British law, to be replaced with a home-grown bill of rights was shockingly muddle-headed and riddled with inconsistencies. But it touched on a theme that is exercising more minds than his these days.

At issue is the perception that the balance between individual rights and public safety has got out of whack. A string of recent cases has appeared to favour convicts, asylum-seeking hijackers and terrorism suspects over law-abiding citizens. This led Tony Blair to speak on June 23rd of the need for a "rebalancing" of the system. It was not the first time he had voiced such views. Then on June 28th a High Court ruling added fuel to the flame, holding that six "control orders", used by the government to detain suspected terrorists when there is not enough evidence to take them to court, were incompatible with the European convention. The government plans to appeal.

At the heart of the debate is the question of whether including the ECHR in British law has deprived British politicians and judges of their ability to protect the public. "The Human Rights Act has made it harder to protect our security," Mr Cameron thundered in a speech to the Centre for Policy Studies, a London think-tank. "It is hampering the fight against crime and terrorism. And it has helped create a culture of rights without responsibilities."

His plan for correcting this catalogue of woes is simple. He would get rid of Labour's human-rights law and replace it with a "modern" bill of rights and responsibilities enshrining the "core values which give us our identity as a free nation". But, he says, he would not pull out of the European convention. Nor could he, without also pulling out of the European Union: adherence to the convention is a condition of EU membership.

The difficulty with this approach is that the Human Rights Act simply incorporates in British law rights laid down in a convention that Britain signed more than half a century ago. It creates no new rights. Nor does it give judges, as some have claimed, the right to strike down or annul acts of Parliament. The courts can only declare a law to be "incompatible" with the convention, and it is then up to Parliament to decide if and how to change it. The convention itself, far from being a foreign set of principles imposed on the unwilling British, was drafted mainly by British lawyers and officials with the aim of extending to the rest of Europe the largely unwritten body of rights and liberties built up in Britain since the Magna Carta in 1215.

In fact, the act's main impact has been to allow anyone in Britain—not just British citizens—to raise human-rights issues in domestic courts rather than having to trek off to the European Court of Human Rights in Strasbourg. Mr Cameron's plan to repeal the act while staying in the ECHR would make it more difficult and costly for British residents to challenge violations of their rights, but far from impossible.

Mr Cameron suggests that his proposed bill of rights would avoid the pitfalls of the present act by defining rights a little differently. It is hard to see how. If the bill does not provide the same rights and privileges as the ECHR does, it will be subject to an automatic challenge in Strasbourg. If, on the other hand, it extends civil liberties—which is surely not Mr Cameron's intention—then it would risk exacerbating the very imbalance between individual and collective rights that he wants to correct.

The Tory leader is particularly exercised about the European court's ruling in the Chahal case in 1996. This banned Britain on human-rights grounds from deporting to India a Sikh militant, deemed a security

risk in Britain. Mr Cameron claims that the Human Rights Act, which was not passed until two years later, “makes things worse” by obliging British courts to base their judgments on the European court's decisions. This is wrong. The act specifically states that Strasbourg's rulings are not binding on British courts. It is the House of Lords, Britain's highest court, that has ruled otherwise. Scrapping the Human Rights Act would not change this.

It is all a misguided muddle, and its political consequences for Mr Cameron could be severe. He was, it seems, trying to temper his carefully cultivated tree-hugging image by hopping onto the tough-on-crime bandwagon launched by the prime minister and his home secretary, John Reid. Yet he failed to please even those who usually support him. Kenneth Clarke, head of Mr Cameron's own democracy task-force, called his speech “xenophobic and legal nonsense”. Vernon Bogdanor, once his tutor at Oxford, dismissed it as a “political gimmick” and suggested that young Dave might do well to return to his alma mater for a few more tutorials.

Mr Blair himself toyed with the notion of amending or repealing the Human Rights Act, though he seemed recently to have ruled this out. In the wake of the High Court's decision on control orders, however, he will be seeking new ways to tip the balance in favour of victims. Britain could seek a derogation from the European convention on grounds of national security, though this would be a profoundly unpopular option. Or control orders could perhaps be made less restrictive. A British bill of rights, however, will surely not be among the front-runners.

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Crime

Brothers in arms

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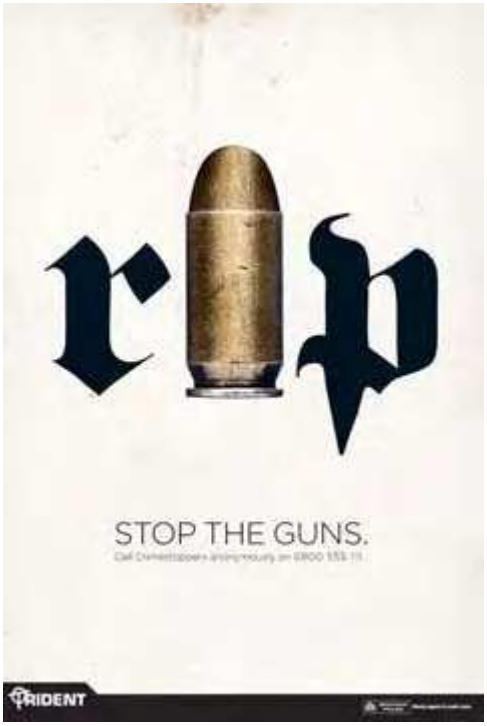
London's police have done well against black-on-black crime

LONDONERS like to think of their city as a mixed, multicultural sort of place. But when it comes to the policing of murder, it is as segregated as a southern American backwater. If a white man shoots and kills a black man, the crime is investigated by one team of officers. If a black man shoots at a white man but merely injures him, this will be investigated by another team. And if a black man shoots another black man, a third team swings into action.



If only they could

The last of these outfits, and the most controversial, is Operation Trident. For the past six years, the 300-man unit has tried to prevent black Londoners—especially the descendants of West Indian immigrants—from killing one another. Critics complain that the approach is discriminatory; but then, so are the gunmen. Just one in eight Londoners is black. If gunmen did not discriminate, and people were targeted at random, fewer than 2% of shootings in London would be black-on-black. Instead, at the time Operation Trident was set up, about three-quarters were.

London's black gunmen are not the insouciant killers of American and tabloid legend. Thanks to strict gun laws, few are well armed. Between a half and two-thirds of the guns seized by London's police cannot be fired, and of the real guns, only about half are “made for purpose”. The rest are airguns that have been jerry-rigged to fire bullets or deactivated weapons that have been drilled out. John Coles, the head of Operation Trident, has come across a Russian pistol dating from 1917. Many gunmen fire their weapons just once, to check that they work. Shoot-outs with the police are rare, partly because the criminals know they would not stand a chance. As one jailed gang member told an interviewer a few years ago, “It's not like we were the Crips or the Bloods.”

Yet the gunmen are dangerous. Indeed, their very youth and incompetence means they are harder to police than more professional folk. “The old-fashioned armed criminal took his gun out on the day of the job and put it away again when he was done,” says Mr Coles. These days, guns are carried as one might carry mints. A man may leave his flat intending to deal drugs, only to end up shooting someone.

Given the hoodlums' chaotic habits, the growing popularity of crack cocaine and an overall increase in recorded gun crime in England and Wales, Operation Trident might have been counted a success if it had merely slowed the rise in shootings that began in the late 1990s. In fact, the trend appears to have been reversed. So far this year, officers have investigated 62 black-on-black shootings, compared with 115 at the same point last year. Detection rates are up, contributing to the unit's popularity among black Londoners.

Most revealing is the fact that other immigrant groups have requested police units of their own. Others have called for Trident's remit to be expanded: the burning question these days is whether some of the same magic could be worked on the deteriorating relationship between the police and young Muslims. That is unlikely to happen. Lee Jasper, the head of Operation Trident's predominantly black advisory group and close to London's mayor, maintains that the unit's focus on a single ethnic group is key to its success.

Perhaps so; but it is also difficult to imagine Operation Trident working so well in five or ten years' time. London's blacks are rapidly becoming more diverse, thanks to African immigration and interracial unions. And West Indian criminals are becoming more integrated, just like their law-abiding brethren. Daniel Silverstone, a criminologist, says black criminals have tended to murder each other because, lacking good connections, they cluster in the most competitive drug-dealing markets. As their lot improves, they are likely to move into safer enterprises, leaving the dangerous stuff to others.

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City government

Beyond our Ken

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London's mayoral system could be a model for the rest of the country

ALL prime ministers worry about their legacies. As Tony Blair frets about his, he can take comfort from the fact that at least one part of it looks secure. The devolving of power to Scotland and Wales was one of the biggest changes in British government in decades, and, despite the controversy at the time, there is now no serious agitation to reverse it.

Yet devolution has not been so successful in England. In 2004 voters in the north-east rebuffed the first of the government's proposed elected regional assemblies, and the entire plan was swiftly abandoned. Only in London, with the establishment of the mayor's office in 2000, has devolution worked. Ken Livingstone, London's first (and so far only) elected mayor, is credited with pioneering road pricing in Britain, through his introduction of the congestion charge, and with helping his city win the 2012 Olympic Games. Inspired by that example, Ruth Kelly, the secretary for local government, suggested on June 26th that similar powers be devolved to eight of Britain's biggest cities and their hinterlands.

Speaking to a conference on cities, Ms Kelly identified transport, housing, planning, and parts of the education system (a similar portfolio to Mr Livingstone's) as likely candidates for local control. That will help to sell the idea to a sceptical public: Colin Copus of the University of Birmingham says that giving real powers to local governments is vital if they are to be taken seriously.

The most important powers are those that convey the ability to raise revenue. Outside London, city councils depend on central government for roughly three-quarters of their cash, and must make up the rest through council tax. Mr Livingstone has much more financial power. He controls income from congestion charging as well as public-transport fares worth around £2.2 billion a year, and levies a small surcharge on council tax.

Yet no British policy would be complete without a healthy dose of fudge. Ms Kelly was ambiguous about the exact degree of devolution, saying only that “leadership and accountability arrangements are commensurate with the powers on offer.” Dermot Finch of the Institute for Public Policy Research, a think-tank, interprets this to mean that cities will not be required to copy London's relatively powerful, directly elected mayor. Instead, the amount of power ceded by Whitehall would vary with each city's choice of how to structure its government. Those that copy the mayoral model will get the most independence and those that stick closely to their current scheme will receive the least.

Mr Copus says that such uncertainty is a symptom of the difficulties of selling elected mayors to local politicians. “Councillors don't tend to like elected mayors, since they're a challenge to their authority,” he says. London was an unusual case because its mayor filled a vacuum that had existed since Margaret Thatcher abolished the Greater London Council in 1986.

Faced with the prospect of local resistance, official caution is understandable. The danger is that introducing city government *à la carte* will complicate an already Gordian state of affairs still more. Alongside ceremonial mayors and various types of county or city council, Englishmen are already blessed (or cursed) with a profusion of centrally funded bodies such as Regional Development Agencies, Regional Assemblies, various Government Offices (of the North West and South East, for example) and more, almost all of them unelected. Such confusion bewilders voters, but the government has given no indication that it wants to scrap any of it. “There is far too much clutter around local government,” says Tony Travers of the London School of Economics. “It's a symptom of its weakness, and sooner or later someone is going to have to have a cull.”

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Bagehot

Friendly fire

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Why Charles Clarke got it slightly wrong

IN POLITICS, it is your friends who are more likely to bring you down than your enemies. But those hoping that Charles Clarke's round of self-justifying media interviews this week would have the same impact on Tony Blair as Geoffrey Howe's lethal criticism had on Margaret Thatcher were disappointed. The former home secretary failed even to measure up to the standard set by Norman Lamont, who witheringly described the government he had just been sacked from as being “in office, but not in power”.

To have expected otherwise was to misread Mr Clarke's purpose. Lord Howe was deliberately creating the conditions for a formal challenge to Lady Thatcher's leadership. The bilious Lord Lamont, furious at being made, as he saw it, the scapegoat for Britain's ejection from the exchange-rate mechanism, was intent on exacting revenge on John Major.

Mr Clarke, a proud and a decent man who lost his job six weeks ago over the release of foreign prisoners who should have been considered for deportation, had a different agenda. He wanted people to understand how he felt about what had happened (“very Charles”, observed a Downing Street insider). He also wanted desperately to restore a reputation that he feels has been further traduced by his successor, John Reid.

Within days of his arrival at the Home Office, Mr Reid launched an extraordinary assault on the civil servants who had worked with Mr Clarke. Using a much-overworked phrase, he pronounced the department “not fit for purpose”. Since then he has appeared to be on a mission to secure tabloid headlines, most recently calling himself “the enforcer” and suggesting that it might be a jolly idea to castrate paedophiles.

By contrast, Mr Clarke portrayed himself as a thoughtful, “tough but not populist” home secretary. He had been getting to grips successfully with long-term reforms, such as shaking up the police service, which would now be jeopardised. In what appeared almost a bid to secure some headlines of his own, he

added sorrowfully: “What we are lacking at the moment is a sense of leadership and direction. That can either be solved by Tony himself recovering in the way he has the capacity to do—that would still be the best solution—or by Gordon being elected with that sense of leadership and direction himself.”

Mr Clarke's estimation of his own ministerial record is slightly at odds with reality. Despite his thuggish appearance, Mr Clarke is a bit of a softy whose grip leaves something to be desired. Three years ago, as education secretary, he failed to spot a looming crisis over teacher redundancies. Intent on deluging head teachers with every gimmicky initiative ever dreamed up by his officials, Mr Clarke had not taken the trouble to understand the funding formula under which money was channelled to schools. At the Home Office, he seemed to personify that department's curious mixture of casual authoritarianism, well-meaning liberalism and administrative fallibility.

His charge that the prime minister has lost purpose and direction is also a bit unconvincing. What is striking about Mr Blair is both his absolute faith in the policies he is pursuing and his almost frenetic level of activity.

In an article in the *Guardian* on June 27th, Mr Blair could not have been much clearer about the direction in which he is heading. He wants to tackle the problems of the “most socially excluded” with public-service reforms characterised by “greater diversity of provision, payment by results, individualised budgets”. He repeated last week's commitment to “rebalance” the criminal-justice system in favour of the victims of crime; he emphasised that in welfare reform new entitlements would be matched by higher expectations of what recipients could achieve for themselves; he described a foreign policy that “must be interventionist, internationalist, multilateralist”.

According to Mr Blair, for some in the party the word “renewal” has become a code for dumping New Labour. If they want to have an argument about that, he is up for it. As it happens, Mr Clarke would be too. As Neil Kinnock's chief of staff during his nine punishing years as leader, Mr Clarke has a fair claim to be considered one of the architects of New Labour. That may explain why his attack on the prime minister was so feeble.

The real problem with Mr Blair is not that he in any way lacks purpose or vision. The sense of drift identified by Mr Clarke has a different source: Mr Blair's authority is ebbing, and within the party there is growing truculence about just where he wants to take it in the time left to him.

Waiting for Gordon

But there is something else as well, and it is no longer the question of when Mr Blair is going. The expectation that he will depart soon after his tenth anniversary in Downing Street next May has become so strong that he has little room for manoeuvre. What is really making people twitchy is that nobody, except perhaps for a few of his intimates, has any idea what sort of prime minister Gordon Brown will make.

Mr Brown's previous suspicions about the role of markets in public-service provision suggest to some that his approach would be very different from Mr Blair's. Others think his more recent remarks mean that he has bought fully into Mr Blair's reform model of competition and choice. Some hope he will be less keen to trample on his party's sensibilities than Mr Blair. Others reckon that to reassure middle-class voters in the south he will pick fights with the left, as he did deliberately last week when he promised to retain the British nuclear deterrent.

As Mr Clarke hinted, questions about leadership and direction should really be addressed as much to Mr Brown as to Mr Blair. Whether the secretive chancellor will provide any answers is another matter.

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American manufacturing

Lean and unseen

Jun 29th 2006 | DES PLAINES, ILLINOIS
From The Economist print edition

Unlike General Motors and Delphi, most of America's manufacturers are thriving

Bloomberg News

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BY LOSING over $10 billion last year, General Motors (GM) at last managed to get its workers' attention. The troubled carmaker announced this week that 35,000 employees—nearly a third of its hourly paid workforce—have accepted the company's incentives to retire early on generous terms. GM expects that the job cuts will save it $1 billion a year. They are part of an overhaul that GM says will lower its annual fixed costs by $5 billion, giving it a better chance to reverse its fortunes. Delphi, a bankrupt car-parts maker that used to be part of GM, announced that 12,600 of its workers have also agreed to accept early retirement.

These huge cuts in an industry at the heart of American manufacturing have fed a popular belief that anyone who makes things in the United States is struggling against an onslaught of foreign competition. Whether American firms are building plants overseas as a way to exploit cheap labour, or closing down factories because they cannot compete any more, the widespread assumption is that the country's entire industrial base is being “hollowed out”. “Our media act as if American manufacturing is going to grind to a halt at around two o'clock this afternoon,” says Cliff Ransom, an independent analyst who scours America for the most assiduous metal-bashers.

But someone forgot to tell American manufacturers the bad news. Most of them have enjoyed roaring success of late. Net profits have risen by nearly 9% a year since the recession in 2001 and productivity has been growing even more rapidly than is usual during economic expansions (see chart). The country's various widget-makers, moreover, show no sign of losing their innovative edge.

Even in the automotive industry, GM and Delphi are arguably

the exceptions. America has hundreds of car-parts makers, most of which are profitably supplying the plants of foreign carmakers such as Toyota and Honda, which this week announced that it will build a new plant in Indiana, to open in 2008. Caterpillar, which drove a harder bargain than GM and Ford did a few years ago with the United Auto Workers union, has since achieved huge gains in efficiency.

Capital equipment and durable goods-makers such as Caterpillar, General Electric, an industrial conglomerate, and Boeing, an aerospace giant, have always been the strongest bits of America's manufacturing base. Their position is the most secure, says James Womack of the Lean Enterprise Institute, a think-tank in Cambridge, Massachusetts, because there is so much knowledge embedded in what they make. Even when a company such as Boeing stumbles over its efficiency, as it did a few years ago, its intellectual property gives it room to recover. These days, however, American manufacturers of all sorts—not just the big durable-goods makers—are quickly improving their efficiency.

Take Littelfuse, a firm that makes fuses and other equipment to protect the electrical circuits in everything from cars and mobile phones to the machines in its customers' factories. It recently started three new production lines in an area of its plant in Des Plaines, Illinois. The sophistication of the equipment, the skills of the workers and the quality of the output are all admirable. But something else about the new 10,000 square foot (930 square metres) assembly area is even more impressive: it used to be a warehouse for the site. Littelfuse gained the space by drastically cutting back its need to store raw materials, unused scrap, unfinished goods and other sorts of wasteful material. After starting a new “lean manufacturing” drive three years ago, the plant took inches off its waistline. It now receives its raw materials—such as resins and high-grade zinc—“just-in-time” to pull them through its production line.

The same sort of thing is happening all over America. Manufacturers were already outpacing their rivals in rich countries during 1995 to 2000, when their productivity was growing by 4.0% a year. After 2000, the country's metal-bashers somehow managed to raise their productivity growth by another notch, to 5.1% a year, according to the Bureau of Labour Statistics. No serious economist thinks that America can maintain such a torrid rate of productivity growth over a longer period; indeed, the pace has already eased in the past year or two. But there are signs that America's productivity in manufacturing has been boosted by forces inherent in the structure of the economy, so that the sector should continue to thrive.

Until recently, it was hard to judge whether America's manufacturers might eventually lose a step once the effects of the 1990s information-technology boom tailed off. Research by Dale Jorgenson of Harvard University and Kevin Stiroh of the New York Federal Reserve Bank showed that IT drove much of America's productivity burst between 1995 and 2000. In a new paper, Messrs Jorgenson and Stiroh, along with Mun Ho of Resources for the Future, a think-tank, have compared the late 1990s with the productivity growth of the past five years. Not only has productivity growth accelerated further—by another 0.7% a year, to 3.2%—but the forces behind it also appear to have become more broadly based.

The economists looked at the entire private sector, not just manufacturing, and suggested that there could be several explanations for the recent strong performance. Because American firms are finding myriad ways to raise productivity, and are not merely riding one wave of innovation from the IT boom, the economists think that productivity growth will settle at a rate above what America achieved in the two decades before 1995. Over the next decade, they expect private businesses as a whole to boost productivity by 2.6% a year. That would be good news. Manufacturers, which are boosting productivity even more rapidly than the rest of the economy, should do even better.

Gordon Hunter, Littelfuse's chief executive, is confident that America can maintain its edge in manufacturing. He is an engineer from the north of England who spent much of his earlier career working for Intel, a semiconductor firm, in California. American firms will keep on improving their productivity, he says, because of a business environment that embraces innovation. “Being flexible and willing to learn are skills that America still excels at,” he says. Eventually, perhaps even GM will get the hang of it.

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Steel

Little love lost

Jun 29th 2006 | PARIS
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Mittal Steel wins the battle for Arcelor

Get article background

“THIS is a marriage of reason,” said Joseph Kinsch, chairman of Arcelor, when he presented the proposed merger of the Luxembourg-based steelmaker and Mittal Steel to the press on June 26th. It was certainly not love at first sight. For almost five months Mr Kinsch and Guy Dollé, the company's chief executive, used every defence they could to rebuff Mittal's hostile bid. They mobilised politicians, bankers, public-relations advisors and—in what was meant to be the fatal blow to Mittal's bid—a white knight in the guise of Severstal, a Russian steelmaker. But clarity came after a nine-hour meeting on June 25th when Arcelor's board at last agreed to sell the company to Mittal Steel for cash and stock valued at €25.6 billion ($32.2 billion).

The merger will create by far the world's largest steelmaker in terms of market value, revenue and output. It is good news for Arcelor, for Mittal—and the whole steel industry. The two companies complement each other in geography and the types of steel they produce. Their union is likely to inspire more mergers and takeovers that will increase the industry's efficiency. One banker in the deal says all steelmakers are now asking themselves what they should do next.

AP

Kinsch stops monkeying with Mittal

Because about half of the global steel market is still parochial and fragmented, size brings many advantages. Big companies have more power to negotiate with suppliers and are better able to withstand the industry's cycle. They can exploit synergies in purchasing, and in manufacturing as well as in marketing and trading. Some small producers with a focus on a niche in the market, such as Sweden's SSAB, a company specialising in high-strength steel, are very profitable. But small steelmakers without their own technological edge are unlikely to survive.

Further consolidation is likely to make the industry healthier. After a painful crisis it has returned to profitability thanks to robust economic growth. In Europe consolidation came to a halt after three big mergers at the end of the last decade. Thyssen and Krupp of Germany joined forces in 1997. Two years later British Steel and Hoogovens of the Netherlands formed Corus. And in 2001 Arcelor was born after Usinor of France merged with Luxembourg's Arbed and Aceralia of Spain. Corus is considered a takeover target while ThyssenKrupp is determined to stay independent—at least for the moment. Hence most of the mergers will probably be in emerging economies. For instance, although China accounts today for one-third of global demand, Baosteel, its biggest producer, is much smaller than Arcelor.

Lakshmi Mittal, the boss of Mittal Steel, believes that ultimately the industry is likely to be dominated by a handful of producers of more than 100m tonnes a year. His proposed behemoth, at any rate, will produce some 120m tonnes a year. But the deal is not quite done yet. First, on June 30th, at least half Arcelor's shareholders must vote against the proposed merger with Severstal to stop it.

That seems likely. Mr Mittal's bid is now 49% higher than it was in January. He has made further concessions to get Arcelor's bosses to concede defeat, contenting himself with a 43.6% stake in the new company. He gave Arcelor four of the seven seats on the management board. Mr Kinsch will be chairman

of Arcelor Mittal, as the company will be called, and a bitterly disappointed Mr Dollé will depart.

Several shareholders, including Romain Zaleski, Arcelor's biggest, with a 7.8% stake, have decided to vote against a merger with Severstal. Even if the Russian deal is approved, Mr Mittal can still scupper it, by buying 73% of Arcelor shares through his own tender offer before it expires in July. Again, Mr Zaleski has promised his backing.

Mr Kinsch, for one, seems resigned to the merger going ahead. He said that he hopes that it will eventually become a marriage of hearts. He also denied any regret for the insults he and his lieutenants hurled at the Indian-born entrepreneur's company and culture, including a dismissal of Mittal shares as “monkey money”. Such behaviour was forgotten, he declared, as soon as everyone sat down together at the same table. That sentiment would have sounded more convincing coming from Mr Mittal.

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Televisa

Sold to the man at the back

Jun 29th 2006 | MEXICO CITY
From The Economist print edition

At the last moment, Univision is snatched from Televisa's grasp

IT SOUNDS much like one of the melodramatic plots of the *telenovelas* that underpin the success of Univision, the largest Spanish-language broadcaster in America, and Televisa, the biggest Mexican television company. Emilio Azcárraga, the owner of Televisa, was determined to try and win back some control over Univision, which his grandfather founded. Its present owner, Jerrold Perenchio, an Italian-American former film agent who once represented the actress Elizabeth Taylor, had put the firm up for sale in February. But things went terribly for Televisa. Last week some of its private-equity partners backed away from the auction for Univision. On June 26th Mr Perenchio sold his firm to a group including Haim Saban, an American-Israeli media entrepreneur who also controls ProSieben, a German broadcaster. Mr Saban's group had outbid Televisa by $0.50 a share—just over 1%—and agreed to buy Univision for a total of $13.7 billion, including $1.4 billion in debt.

AP

I thought we belonged together

Most observers believe that Televisa would have been willing to stay and outbid Mr Saban. They suspect that Mr Perenchio chose to sell to somebody else because of the two firms' troubled relationship. Televisa's supporters think that he dislikes Televisa, partly because the Mexican company has brought a court case against Univision over a programming agreement. “They should have hired a psychologist and saved a lot of money,” says one analyst.

But it may not be as simple as that. Some analysts reckon that Mr Perenchio faced less regulatory risk in accepting a bid from Mr Saban—America's Federal Communications Commission (FCC) might have looked closely at whether Televisa was violating the rules against foreigners owning broadcast assets in America (though its bid was structured so that it would have taken only a 25% stake).

One thing nobody disagrees about is that the *telenovelas* and the advertising revenue they bring in are enormously profitable. In the first quarter of 2006 Televisa made 2.8 billion pesos ($265m) in profit—an increase of 24% over the same period in 2005. Televisa can cope perfectly well without Univision. It controls 70% of the Mexican television market and enjoys support from enough of the Mexican congress to ensure favourable laws. Earlier this year, Televisa, along with TV Azteca, which has a further fifth of the market, succeeded in winning a new telecommunications law, which some people call the “*Ley Televisa*”. Among other favourable conditions, it granted them a big chunk of new spectrum for free, for digital broadcasting, while allowing the company to hold on to spectrum it already controls.

Even so, Televisa has lost a mouth-watering opportunity. Univision offered a chance to earn more from its *telenovelas*. The existing deal between Televisa and Univision grants the American company rights to Televisa's *telenovelas* until 2017, on terms that give the Mexicans a small share of the advertising revenue. One of the issues in the various lawsuits between the two companies is who will have the right to stream *telenovelas* over the internet in America. If Mr Azcárraga wants to take revenge, and his company's legal proceedings succeed, Mr Saban could yet find himself the owner of a television network with little to broadcast.

The courts may be busy. Mr Saban's purchase may take a while to go through. Televisa might try to challenge it, on the grounds that Univision's board could have sought a higher bid for the sake of its shareholders. Some people speculate that Mr Saban might try to flip Univision to Televisa in the future—

he and his private-equity partners will want to realise a return at some point. And the FCC will examine this week's deal carefully. The regulator took over a year to approve a merger in 2003 between HBC, a Hispanic-American broadcaster, and Univision, and it might decide that some of Mr Saban's partners' other media properties would, combined with Univision under today's arrangement, pose media concentration problems. Like all the best *telenovelas*, this one may have more twists around the corner.

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Consumer power

Shop affronts

Jun 29th 2006 | GUANGZHOU
From The Economist print edition

Chinese consumers are ganging up on their retailers

ON AN otherwise quiet Friday afternoon in Guangzhou, a city in southern China, 500 shoppers gather outside a Gome electrical superstore in the downtown district. They arrive en masse at the designated time—June 16th at 4pm—that they had previously agreed online. Several hours later, they emerge clutching boxes, having secured 10-30% discounts on cameras, DVD players and flat-screen televisions. “It was great,” says Fairy Zhang. “We just bought an apartment and this way we can afford nice things for it.” The previous weekend, over 100 locals visited Meizhu Central, a well known furniture outlet, to haggle over the prices of kitchen cabinets and dining-room furniture.

Tuangou, or team buying, aims to drive unprecedented bargains by combining the reach of the internet with the power of the mob. It is spreading through China like wildfire. The practice originated in online chat-rooms but has quickly inspired several specialist websites, such as 51tuangou.com and www.teambuy.com.cn. Zhang Wei, who helped to set up teambuy less than six months ago, says the site has 10,000 registered members. The company plans to expand into Beijing and Shanghai.

The first team buyers found each other by accident as they chatted online about buying everything from electronics to cars and even apartments—and realised they could get a better price if they went shopping together. Getting a discount is also a sort of insurance policy against ending up with badly made or fake goods from Chinese shops. Some shoppers just show up at a store unannounced to see if they can bargain their way to a discount, says Chen Shu, a 32-year old from Shanghai: “Sometimes we call the shop, but often we just surprise them. Shopkeepers argue, but in the end they want the business.” Others are using websites like Ms Zhang's, which work with shops to organise team-buying sessions where discounts are guaranteed without much confrontation.

Although some retailers dislike the practice—foreign luxury-goods groups like LVMH say they insist on fixed prices in China—others hope they can recover lost margins through the extra volume. The Gome store in Guangzhou, for example, closed its doors to normal customers when the team buyers showed up a fortnight ago and gave each of them a goody bag as they left.

Team buying turns haggling, a tradition in China, into an art-form. That such aggressive consumer behaviour has arisen in a country without much of a consumer economy and weak individual rights is less surprising than it might seem. In the countryside there are more and more organised protests against government corruption and dictatorial landlords, with even poor people using technology like the internet and mobile phones to help. Now their urban, middle-class brethren are adopting their tactics—if only for shopping. However, if China's economy ever slumps, urban consumers could use their organisational skills to confront the government directly. Beijing might be watching the spread of team buying with trepidation.

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BP

Beyond Propriety

Jun 29th 2006
From The Economist print edition

With awful timing, BP is caught in an energy-trading scandal

WHAT with the price of oil at levels that anger voters, American politicians have been scouring for evidence of wrong-doing by big oil firms. On June 28th they struck lucky, when the Commodity Futures Trading Commission (CFTC), which oversees trading in America's energy derivatives, filed a complaint against BP's North American subsidiary and against traders in its Natural Gas Liquids business. It charges them with manipulating the price of propane contracts for February 2004 by “cornering the market” for the stuff in Texas. The ultimate buyers of the propane were households and businesses, including many poor rural families living in trailer homes.

The CFTC accuses BP's traders of buying up supplies of propane towards the end of America's winter heating season, in an effort to create a temporary shortage. Many traders who had entered contracts to deliver propane at the end of February could not lay their hands on enough barrels to meet their commitments, and so had to buy it from BP at rapidly rising prices. That was all part of the BP traders' illegal plan, says the CFTC. BP denies any manipulation and says it is co-operating with the CFTC. But it has fired some of the traders involved for misconduct.

As in other trading suits, the defendants' own phone calls and other records will provide some of the best evidence against them. The CFTC has tapes of Mark Radley, who ran the Natural Gas Liquid unit's trading outfit, describing the new trading plan: “What we stand to gain is, not just that we'd make money out of it, but we would know from thereafter that we could control the market at will.”

Those words will bolster the CFTC's charges of attempted manipulation. But proving that someone has succeeded in fixing derivatives prices is much harder, says Geoffrey Aronow, the commission's director of enforcement until 1999. Prices can bounce around for many reasons, making it hard to prove that defendants' actions have caused the price changes that occur. Indeed, the CFTC has never won such a case against anyone.

Whatever the outcome of the case, however, the publicity will further damage BP's tarnished image in America. The firm has tried to portray itself as more considerate of the environment than other big oil firms, with slogans like “Beyond Petroleum”. But it has suffered from a series of embarrassing accidents, including a fire at a refinery in Texas in 2005, which killed 15 people, and a big oil spill from a pipeline in Alaska this year. The firm, which is based in London, has repeatedly vowed to improve its oversight and has embarked on management reshuffles to that end. But with each new incident it seems more likely that BP, long admired for the quality of its management, has a serious problem overseeing its global operations.

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Mining mergers

Heavyweight metal

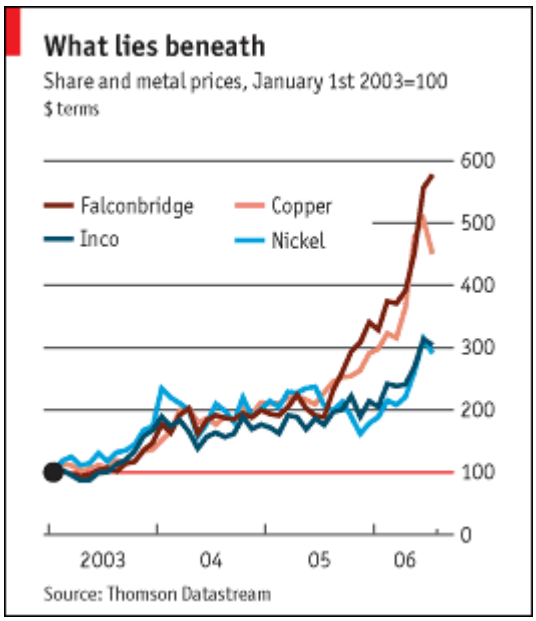
Jun 29th 2006
From The Economist print edition

Three middling mining firms bet on scale and scarcity

FIRST it was metals, now it is the companies that mine them. In May prices for copper, nickel and other metals rose to record levels, although they have since fallen a bit. Now three mining firms are proposing the most expensive merger in the industry's history. The $40 billion deal, in which an American company, Phelps Dodge, plans to take over two Canadian ones, Inco and Falconbridge, would create the world's biggest producer of nickel, the number two in copper, and the fifth-ranked mining firm overall. The records may not stop there: two other mining firms, Xstrata and Teck Cominco, had previously bid for Falconbridge and Inco respectively, and could make further offers.

Soaring commodities prices have left mining firms flush with cash and keen to expand. One way would be to search for more metal in the ground, instead of on the stockmarket. But organic growth is expensive at the moment; as firms rush to increase their output to take advantage of high prices, every conceivable input, from engineers to mining trucks' huge tyres, is in desperately short supply. Developing new mines is also slow. Mining executives worry that projects that get the go-ahead when prices are high will not look so attractive when the next slump comes.

That could be true of the proposed merger too, of course. Phelps Dodge offered a premium of 23% over the price of Inco's shares and 12% over Falconbridge's. Those shares, in turn, have been rising for several years along with the firms' wares—nickel, for the most part, at Inco, and nickel and copper at Falconbridge (see chart).



The bosses of the firms insist that the mark-up is justified, for several reasons. For one thing, they reckon they can squeeze savings of $900m a year out of the combined entity by 2008, by sharing equipment and personnel among adjacent mines, for example, and pooling their marketing staff. More importantly, they argue that the size and diversity of the new company will make it less vulnerable to mining's painful cycles, and so more attractive to investors.

The biggest and most diversified mining companies, such as BHP Billiton and Rio Tinto, do boast higher share valuations. They produce everything from aluminium to zircon, and so are less susceptible to fluctuations in the price of any particular metal. By the same logic, the more mines a firm is running or developing, and the more countries it operates in, the less risk each individual project poses to profits.

The merged trio will certainly have a broader geographical spread, with mines in five continents. But its main projects, in stable places like the United States, Canada and Chile, never seemed that risky in the first place. Furthermore, despite having sidelines in cobalt and molybdenum, the new firm's fortunes will depend chiefly on the price of copper and nickel—two of most volatile metals of late.

Some analysts mutter that Phelps Dodge embarked on the merger chiefly to save itself from being taken over. Investors seem to share their doubts: Phelps Dodge's shares fell by 8% after it announced the deal, despite a simultaneous pledge to spend $5 billion on a share buy-back scheme once the merger is concluded.

On the other hand, the price of nickel and copper jumped on the news. Traders seem to have assumed that the companies would have contemplated such an expensive deal only if they thought that metals would remain in short supply for some time. The more money that mining firms spend buying one another, rather than exploring for and developing new mines, the likelier that is.

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Aviation

Flight of the bumblebee

Jun 29th 2006
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Could a new breed of very light jets transform aviation?

THE idea that small is beautiful seems to have been lost on the aviation industry. But while most attention is lavished on the Airbus A380, the giant pterosaur of the skies, many think that the new, diminutive Eclipse 500, a mere bumblebee by comparison, is the aeroplane with the real potential to transform air travel.

The Eclipse 500 is the first of a new kind of small aircraft called the very light jet (VLJ). It seats five passengers and a pilot, weighs 3,536lb (1,603kg) when empty and is so petite that seven of them could fit along the wings of an A380. The craft should receive final approval from America's Federal Aviation Administration later this month, and the world's first VLJ will be delivered to a customer.

The Eclipse 500 is built by Eclipse Aviation, which is based in Albuquerque, New Mexico, and is the first of many varieties of VLJ. Two aircraft firms—Cessna, from Kansas and Adam Aircraft, from Colorado—are developing VLJs that should arrive later this year. Another, Embraer, which is based in São Paulo, Brazil, plans to start selling its Phenom 100 in 2008. But at $1.4m the Eclipse is the smallest and cheapest to run. The others cost between $2m and $3m.

So who will buy these new craft? The keenest buyers could be individuals who already buy small, propeller-driven, piston and turboprop craft, a variety that now sells 600-700 planes a year. The Eclipse VLJ is faster and cheaper to buy and operate than many of these craft. Companies are likely to want to expand their fleet of jets, possibly to provide better mobility for technical and engineering teams. Smallish firms may seize the opportunity to buy a jet for the first time. Most businesspeople, though, are likeliest to experience a VLJ as part of an “air-taxi” service. Charter companies plan to buy VLJs and offer people the ability to get from any A to B they choose.

The Eclipse is able to operate on runways as short as 2,300ft (701m). In America this opens up about 5,000 small regional airports to jet aircraft. It also contains advanced avionics equipment, GPS navigation and engine-management software that make it particularly easy to operate. Many people in aviation now see a future where thousands of tiny jets fly directly between smaller cities. Because it is a jet, the Eclipse is likely to be much more reliable than other aircraft of its size. But extra safety features have been built in just in case. It has a low landing speed and an advanced avionics suite of the sort normally found in larger, more expensive jet aircraft.

Vern Raburn, chief executive of Eclipse Aviation, says he already has over 2,500 orders for VLJs, most of which required a non-refundable deposit of $125,000. Over the past five years, his aircraft has attracted a lot of scepticism. Mr Raburn is an outsider who arrived from the software business to launch an entirely new kind of vehicle in an industry with a long history of grand schemes gone awry. But the Eclipse has silenced many of its critics. Most agree that its VLJ is an exceptional vehicle. Where opinion remains divided is over the true market potential of the Eclipse in particular and VLJs generally. The Eclipse has been designed for mass-production, and must sell in high volumes for the company to thrive. Mr Raburn has said that he needs to sell a minimum of 500 planes a year and 750 to be decently profitable.

Such ambitions amaze aviation analysts such as Richard Aboulafia, of the Teal Group, an aviation consultancy in Virginia. He acknowledges that VLJs are “one of the best achievements in aviation for decades” and could open a thriving new market. But he is aghast at the idea that Mr Raburn hopes to sell 750 a year, which equals roughly the total output of all American business-jet manufacturers.

As well as private individuals and companies, Mr Raburn is optimistic about foreign markets. By 2011,

half of his firm's aircraft could be sold to people abroad—he has particularly high hopes for India. But the biggest unknown is the degree to which VLJs will create a whole new business of air-taxis. DayJet, an air-taxi firm in Delray Beach, Florida, has ordered 239 Eclipses, and Linear Air, a charter company based in Lexington, Massachusetts, has ordered 30. VLJs have a range limited to around 1,200 nautical miles (2,200km or 1,380 land miles), but this is more than enough to serve the market for regional travel, says William Herp, Linear Air's boss. Mr Herp says he founded Linear when he realised that VLJs cut the cost of private jet travel in half. With two or three people in a VLJ, he says, the cost would only be marginally more than on a scheduled airline. But people would find the air-taxi experience much better and faster, he adds.

Today, of course, business and leisure travellers have either to get in their cars or put up with long waits at hub airports. The effective speed of air travel has been steadily declining in the last five years. A change would be welcome. Although most people agree the VLJ has arrived just in the nick of time, it is still unclear just how radically it will change aviation.

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Face value

A prince of malls

Jun 29th 2006
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Henry Segerstrom prides himself on an upscale approach to the shopping centre

H Thomas

"WE'RE not a mall," insists Henry Segerstrom, with a gentle chuckle. "We're a planned retail centre." In other words, please do not confuse the Segerstrom family's South Coast Plaza—just a Cadillac minute or two from the Pacific Ocean in Southern California's Orange County—with those vulgar consumer palaces where shrieking teenagers buy garish T-shirts and munch their Big Macs on the move. A South Coast Plaza shopper goes from Burberry to Bulgari, pops into Louis Vuitton and stops for lunch at Pinot Provence. To quote Mr Segerstrom ("Henry" to his staff): "Quality is a good investment."

Exactly how good is a question that Mr Segerstrom, six feet tall and looking far younger than his 83 years, is not about to answer. South Coast Plaza is owned partly by C.J. Segerstrom & Sons, a private family partnership set up by Henry's Swedish-immigrant grandfather, and partly by individual members of the family. But Henry concedes that the Plaza has for some time been generating annual sales of $1 billion—and is on track to reach $1.5 billion next year. By most calculations, those numbers mean that South Coast Plaza, a glossy sprawl of some 2.9m square feet (270,000 square metres), is already America's highest-grossing shopping centre. There is more than enough profit to allow Mr Segerstrom, looking elegantly conservative in a pin-striped suit, to enjoy being one of America's foremost cultural philanthropists. He gave $40m of his own money to the Orange County Performing Arts Centre next door.

The interest in the arts is long-standing and deeply felt. But it makes commercial sense, too. Mr Segerstrom approvingly quotes New York's mayor, Michael Bloomberg, on the economic impact of "cultural tourism". There is, he believes, a synergy between shopping at Tiffany or Jimmy Choo and crossing the road to hear world-class opera at the Arts centre (in October the Kirov Opera will present Wagner's "Ring" Cycle, with Plácido Domingo as Siegmund). It helps, too, with the tenants: LVMH's Bernard Arnault and his wife can fly in from Paris and not feel they have arrived in a philistine wasteland.

The more prosaic synergy, however, is with Interstate 405, the San Diego Freeway that barrels a multi-lane path southwards from Los Angeles. Before the 405 opened in the late 1960s, the Segerstrom fortunes, nurtured by Mr Segerstrom's acquisition of the flat agricultural land around the township of Costa Mesa, depended first on the market for lima beans and second on farmland that the Segerstroms had managed to have re-zoned for industrial use. Indeed, as a gesture which surely owes a lot to sentiment, the family ranch, with its magnolia and orange trees, remains intact, within sound of the 405 and just a few paces from the modest office from which Mr Segerstrom can point to what survives of the lima-bean farm.

In retrospect, Mr Segerstrom's idea of setting up the shopping mall (sorry, "planned retail centre") to coincide with the freeway seems obvious. After all, location means everything to smart developers, and South Coast Plaza, which opened in 1967 (when the 405 was close to completion), sits neatly in the angle between the San Diego Freeway from the west and the Santa Ana Freeway from the north. Yet at the time success was by no means certain: Orange County had relatively few people and there was a

surfeit of competition among America's mall-builders. “Everybody was talking with the same tenants, so we were just duplicating each other. Developing retail centres became like a production line,” says Mr Segerstrom.

Hence the impulse, even though the Plaza was bound to need “big box” tenants like Macy's, to offer something special. “There wasn't enough in the marketplace to satisfy everyone's projections,” continues Mr Segerstrom, “so we decided to take an upscale approach to the market—and tenants had to agree they wouldn't put another outlet in Orange County.” Let the movie stars and lawyers of Hollywood shop in Beverly Hills; South Coast Plaza would instead draw from a growing group of affluent consumers south of Los Angeles International airport.

Rich and famous

But what if the rich prove fickle? Halston is one Plaza tenant that went out of business, and Mark Cross and Courrèges both faded from the market. On the other hand, in Orange County the rich are getting richer and there are more of them (which may be why there is a television soap opera, “The OC”, based on them). With just over 3m residents, twice as many as in 1970, the OC is the third most densely populated county in America; its economy is in the world's top 40; and the median income of a South Coast Plaza shopper last year was $93,800. It is hard to recall the difficult days of the early 1990s, when the region's defence industry suffered and the county, after a series of bad investments, declared bankruptcy.

The trick is to keep the Plaza's image properly burnished. In part that means acres of renovation, involving travertine marble, that by the end of next year will have cost the Segerstroms $25m and their tenants another $100m. But it also means attracting the right kind of tenant, whether “big box” operators such as Crate & Barrel or exclusive boutiques such as Cartier. In the 1970s Mr Segerstrom famously charmed Seattle's hesitant Nordstrom family—fellow Scandinavians—to choose the Plaza for their first department store in California; later this year there will be shops for Carolina Herrera (part of Spain's Puig Beauty & Fashion Group) and Jo Malone of London. All this explains why *Vogue* magazine described South Coast Plaza as “a kind of ideal world where everything is shiny and new and clean and perfect and promising.”

Yet there is one nagging question: what plans are there for this ideal world post-Mr Segerstrom? His answer is immediate: “That's a private matter.”

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Philanthropy

The new powers in giving

Jun 29th 2006 | NEW YORK
From The Economist print edition

Warren Buffett has joined Bill and Melinda Gates to create the world's biggest charitable foundation. The hard part will be giving their money away well

AFP

IT WAS an extraordinary sight. The world's two richest men hugged each other as a room full of New York's great and good cheered and applauded. The event marked a new sort of partnership, one in which a pair of tycoons will merge their fortunes and give most of their money away to help make the world a better place, especially for the poorest.

In cinema, such a scene would have seemed implausible; especially at a time when businessmen are making headlines for their misdeeds and selfish excess. Yet on June 26th Warren Buffett pledged to donate the bulk of his estimated $44 billion fortune to the charitable foundation created by the only man richer than himself, Bill Gates. This munificence came soon after Mr Gates's decision to start to step down from Microsoft, the software-maker that made him fabulously rich, to work full-time at the foundation which he runs with his wife, Melinda.

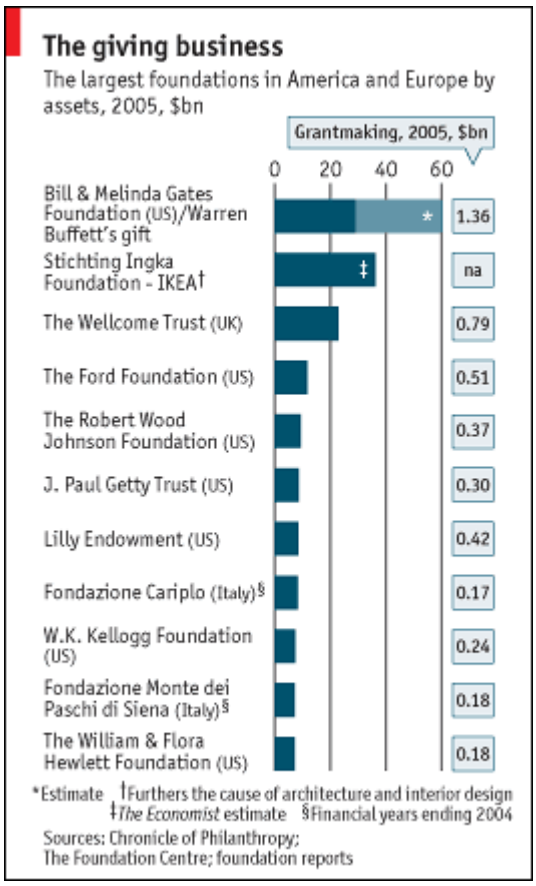
Mr Buffett's donation, worth some $37 billion, is the biggest-ever—some $6 billion will go to the foundations founded by his three children and his late wife. It exceeds the $31 billion that Mr Gates handed to his own foundation (although he still has an estimated $50 billion burning a hole in his pocket). By comparison, two earlier giants of American philanthropy, John D. Rockefeller and Andrew Carnegie, gave away only $7.6 billion and $4.1 billion respectively, measured in 2006 dollars.

Yet Mr Buffett is also breaking new ground by outsourcing his philanthropy. He says he is applying the same strategy to giving away his money as he did to making it: finding good organisations with talented managers and backing them. It was through a series of well-timed investments in firms such as American Express, Coca-Cola, Gillette and Disney that Mr Buffett's Nebraska-based Berkshire Hathaway grew into a financial powerhouse and in the process earned him the sobriquet of “Sage of Omaha”.

The Sage, however, believes that the Gateses can do his philanthropy better than he could. Just as he likes to have a seat on the board of the companies he invests in, Mr Buffett will become a trustee of the Bill & Melinda Gates Foundation. It is the Gateses he is backing. Despite many denials, it is widely believed Mr Buffett made his gift conditional upon Mr Gates giving up his day job at Microsoft. Moreover, his money will flow only as long as at least one of them actively runs the foundation.

The Gates Foundation will eventually be able to count on assets of around $60 billion. That makes it by far the world's biggest charitable foundation (see chart), overtaking the Stichting Ingka Foundation, which owns the Swedish furniture giant IKEA, and which is ostensibly dedicated to furthering the modest cause of architecture and interior design. The Gates Foundation's ambitions are not only more altruistic, but also differ from most other foundations in their scope, which includes eradicating disease and poverty in developing countries.

Mr Gates says he is “awed” by the generosity of Mr Buffett, an old friend and bridge partner. It could lead to similar gifts from other billionaires. The Gates Foundation had already inspired a growing number of rich people, including the generation of technology tycoons that followed Mr Gates, such as the founders of eBay and Google. Yet to realise predictions of a second “golden age of philanthropy” that would surpass Carnegie and Rockefeller, this new generation of philanthropists must not only give away lots of money, but do so more effectively than before.



Mr Gates and Mr Buffett know that many billions of dollars have been squandered over the years by philanthropists, so they want to make their money work hard for them. They may have many reasons to give their fortunes away. Mr Buffett has long said he does not believe in dynastic fortunes and Mr Gates was taught by his mother that he had a responsibility to “give back”. Mr Gates famously brought forward his plans to give away most of his wealth after a World Development Report convinced him that by doing so it would have a greater impact than waiting until he grew old.

The Gateses and Mr Buffett were also inspired by the philanthropists of the first golden age. Having made their fortunes in the industrial revolution, they formed the first big foundations and set about modernising American society. Mr Buffett chose to announce his gift in the New York Public Library, itself the product of collaboration between early philanthropists, including Carnegie, the great provider of public libraries. In attendance was David Rockefeller, now in his 90s, grandson of the oil baron who turned into a philanthropist.

Rockefeller had a huge impact on the two areas that have been at the centre of attention for the Gates Foundation, education and health. His foundation helped to create the modern research university. Today, in a similar spirit, the Gates Foundation is trying to tackle the huge problems in America's schools. Rockefeller raised the quality of training doctors in America and found a vaccine for yellow fever. It also drove the “green revolution” in agriculture that ended famine in much of the world and, by some estimates, saved 1.5 billion lives—exactly the sort of impact that the Gateses hope to achieve.

Their foundation has got off to an impressive start, not least by raising public awareness about AIDS and poverty in developing countries. It has given away billions of dollars, mobilised billions more from other sources and is helping to shape public policy. Thanks to Mr Gates, it has become known as one of the leading practitioners of “philanthrocapitalism”, an approach that draws on modern business practices and an entrepreneurial spirit to get more from its money.

But not everyone is confident of the foundation's success. Some experts in philanthropy reckon that although Mr Buffett's money greatly increases opportunities, it also carries risks. In particular, the foundation faces two huge tests: how to operate at a much larger scale and the sheer complexity of the problems it is trying to solve.

According to Mr Buffett, the Gates Foundation represents good value for money: “per dollar, very effective”. Mr Gates is confident that it can scale up to use Mr Buffett's money to achieve even better results. “Given the size of the problems we are taking on, we can more than double the impact we have,” he says. Nevertheless, he notes that although Mr Buffett's money will double the foundation's annual giving, to around $3 billion, that still represents only $1 for each person in the poorer half of the world's population.

Even so, for any organisation a doubling of its activities is never easy. Several people close to the Gates Foundation say that it is already struggling to give away the 5% of its assets it is legally obliged to each year if it is to qualify for special tax treatment. “It is surprisingly hard to find groups able to take a $10m grant and do something with it,” says one consultant. There are rumours that such difficulties may have contributed to the abrupt departure last autumn, by mutual consent, of the head of the foundation's health programmes, Rick Klausner.

“It will be very challenging to increase their payout adequately, unless the foundation moves away from the sharp focus it has had, which has been one of its strengths,” says Mark Kramer, of FSG Social Impact Advisors, a consultancy. A restructuring at the top of the foundation in April, with the creation of three divisional presidents, is being seen as preparation for a broader approach.

Yet this goes against a trend among the best of America's other foundations, which are becoming more specialised. The Ewing Marion Kauffman Foundation is cutting programmes to concentrate on promoting entrepreneurship. The Edna McConnell Clark Foundation is paying more attention to youth work, spinning off its successful International Trachoma Initiative partnership with Pfizer, a big drug company. A lack of focus has been one of the biggest failings of many American foundations, says Melissa Berman of Rockefeller Philanthropy Advisors.

Even so, she believes that the Gates Foundation is unusually well placed and will be able to expand smoothly into some new areas because of the entrepreneurial way in which it operates under the Gateses and its chief executive, Patty Stonesifer, a former top Microsoft executive. The foundation has resisted the urge to hire lots of in-house experts. Noting its use of advisory committees of outside academics, Mrs Gates describes the foundation as a convener, concentrating on finding the best people and projects.

A particular feature of this approach is the foundation's prolific use of partnerships, something that is unfortunately done rarely if at all by other foundations, says Greg Dees of Duke University. The Gates Foundation has provided incentives to pharmaceutical companies to develop drugs for poor people that would otherwise not have been considered worth it. It has also worked with governments, various agencies, foundations and Bono, a campaigning rock star.

Yet, as it grows, the foundation will inevitably become more bureaucratic. Its 240 staff are expected to double before long. To accommodate them, the foundation is planning to move to a large campus near Seattle's famous Space Needle—which some observers fear may reveal a bad case of the edifice complex that has prompted other well-funded foundations to build palatial headquarters.

The intricacy of the problems it is trying to solve is another matter. As Mr Buffett wisely observed, philanthropy is a “tougher game” than business. In business you try to find the easiest options, he says, but “in philanthropy, the most important problems are those which have already resisted both intellect and money.” Moreover, whereas it is easy to tell if you are succeeding in business—you make money—in philanthropy measuring performance can be fiendishly tricky and take a lot longer.

Ready to make mistakes

To its credit, the Gates Foundation has built performance measurements into all its projects—and importantly is prepared to axe those projects that do not come up to scratch. One of the things that Mr Buffett says he admired about the Gateses is that they are “more prepared to make mistakes than me”. An example is the foundation's funding of the Global Alliance for Vaccines and Immunisation. National programmes last for five years, and are scrutinised by an outside auditor during year two or three. Those ahead of target are rewarded with an extra $20 per vaccinated child. Those on target continue to be funded as planned. Those below target have the tap turned off, at least until the problems are resolved.

Mr Gates talks obsessively about the need to be willing to fail, and to learn from mistakes. Mrs Gates notes that over time the foundation has taken a broader approach to the issues it is addressing. For instance, in a big project to combat HIV/AIDS in India, the foundation became aware of the need to help prostitutes find alternative sources of income, which is leading it into microlending to poor people.

It may soon become clear whether the foundation is as ready to deal with failure as Mr Gates suggests. Its education initiatives, in particular, are coming under fire. So far, it has poured around $1 billion into school districts from San Diego to Cincinnati, to raise graduation rates. But one study suggests that its preference for smaller schools is not necessarily yielding the results it wants, and that breaking up big

urban schools could be doing more harm than good. Reportedly, the schools strategy is now being reconsidered, which is exactly as it should be. Yet some observers think that Mr Gates is not always given the full story, and can be seen as “someone you don't want to deliver bad news to”, says one consultant.

One important thing Mr Gates could do is publish details of his foundation's failures, says Joel Fleischman, who is writing a book about American foundations. As a businessman, Mr Gates ought already to understand the way transparency can replicate market pressures to perform well, adds Mr Fleischman. As examples he points to the Wallace Foundation and the Packard Foundation, both of which, at the start of a project, hire independent academic observers who are free to criticise and publish whatever comments they like.

Yet there is one reason why these concerns should not dampen the excitement generated by Mr Buffett's donation. The past experience of foundations suggests that as long as the founder is active and engaged, they tend to perform well. The intriguing question is what role Mr Buffett will play. There is much speculation that he will simply settle for being a role model. Mr Buffett loves his job at Berkshire Hathaway and has little appetite for studying diseases or talking to lots of opinionated people, as Mr and Mrs Gates must.

Others may be tempted to follow Mr Buffett's lead and give away their fortunes, perhaps to the Gates Foundation. But the biggest task in philanthropy is to allocate capital well. And there is nobody who has thought harder about how to invest than Mr Buffett. He should not underestimate the importance of being actively involved because his mind will be as valuable as his money in helping the world's needy.

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The fight against disease

How to spend it

Jun 29th 2006
From The Economist print edition

Where money could have the biggest effect on global health

Cost-effective?
Research funding by disease, 2001-02

	Global disease burden		Global deaths		R&D funding	
Condition	m DALYs*	as % of total	m	as % of total	$bn	per DALY*, $
Cardiovascular	148.190	9.9	16.733	29.3	9.402	63.45
HIV/AIDS	84.458	5.7	2.777	4.9	2.049	24.26
Malaria	46.486	3.1	1.272	2.2	0.288	6.20
Tuberculosis	34.736	2.3	1.566	2.7	0.378	10.88
Diabetes	16.194	1.1	0.988	1.7	1.653	102.07

Source: Malaria R&D Alliance
*Disability-adjusted life years

AS ALL governments know, health budgets are infinitely expandable. But Warren Buffett's gift to the Bill & Melinda Gates Foundation will make a useful difference to the fight against disease in poor countries. Mr Buffett's wealth will be transferred in annual tranches, the first worth around $1.5 billion. This is more than three-quarters of the amount spent each year on malaria and tuberculosis combined, and about a fifth of that spent on AIDS. The question is, how to spend it wisely. In particular, there is the ticklish issue of how much to disburse on preventing and treating now, and how much to reserve for research into better ways of doing things in the future.

On the face of it, instant action looks compelling. According to UNAIDS, the agency in charge of the United Nations' response to the epidemic, $22 billion could usefully be spent preventing and treating AIDS in poor countries in 2008. Actual spending last year was $8 billion. The World Health Organisation, another UN agency, reckons $56 billion needs to be spent on tuberculosis by 2015. On current projections, spending will be $25 billion. And the Global Alliance for Vaccines and Immunisation, which is heavily backed by the Gates Foundation, reckons that a full vaccination programme in the 72 poor countries in which it operates would cost, over the next decade, between $11 billion and $15 billion. At the moment, annual spending on vaccinations is under $250m.

Yet, tempting as it is to blow the Buffett billions on bolstering these programmes, research also has a claim on the pot. The Gates Foundation is notable for its willingness to sponsor research into better means of prevention and treatment. In particular, its Grand Challenges in Global Health initiative is backing 43 projects that will, if they succeed, eliminate important obstacles to a healthier world.

At the moment, the amount spent around the planet on health research does not reflect the damage a disease does. Such damage is not always lethal. Public-health researchers employ a figure known as a DALY (disability-adjusted life year) to measure the true impact of a disease. This figure combines the effects of premature death with those of disease-induced disability in survivors.

Malaria, for example, kills fewer people than tuberculosis, but inflicts more DALYs. And, of the diseases in the table, it is the one where research is most underfunded compared with the damage caused. Diabetes, a concern of the rich as well as the poor, gets more than 16 times as much money per DALY, and cardiovascular disease ten times as much. Evening out these egregious differences would be cash well spent.

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Investment banking

Wall Street v Wall Street

Jun 29th 2006 | NEW YORK
From The Economist print edition

America's investment banks are enjoying excellent results. The stockmarket, however, is unimpressed

SuperStock

IF EVER an industry had reason to complain about the whims of the stockmarket, it would be investment banking. The share prices of Wall Street firms have looked a little pale for a while, compared with their beefy earnings; and in the past couple of weeks one after another has reported excellent results only to see its shares trashed. Go back to June 12th, when Lehman Brothers, which has had a splendid few years, announced that its second-quarter earnings were up yet again, by half. Applause? Lehman's share price fell on the day of the report and fell again the next day. It was accompanied on its descent by that of Goldman Sachs, which on June 13th imparted the grave news that its earnings had more than doubled.

These two are not alone. Since late April, the share price of Bear Stearns, for example, has slipped too, although the firm has reported excellent results. As if to convince the industry that the world really has turned upside-down, the market has been kindest (or least unkind) to the investment bank that did least well: the price of shares in Morgan Stanley, where earnings, disclosed on June 21st, rose by a still healthy 25%, dropped by a bit less than 10%. Lehman's price has fallen almost three times as far.

Stifle, if you can, any joy at Wall Street's turning on itself, and ask why this might be. The market is not being as beastly to other financial firms. Although investment banks can take some solace from seeing asset managers suffer some of the same treatment—their earnings are up, their share prices down—commercial banks have largely been spared. A possible explanation lies in fund managers' and banks' assets: fund-management companies make fees from holding equities, which are down a bit, whereas commercial banks make money from extending credit, the quality of which has so far shown little sign of deterioration.

As good as it gets?

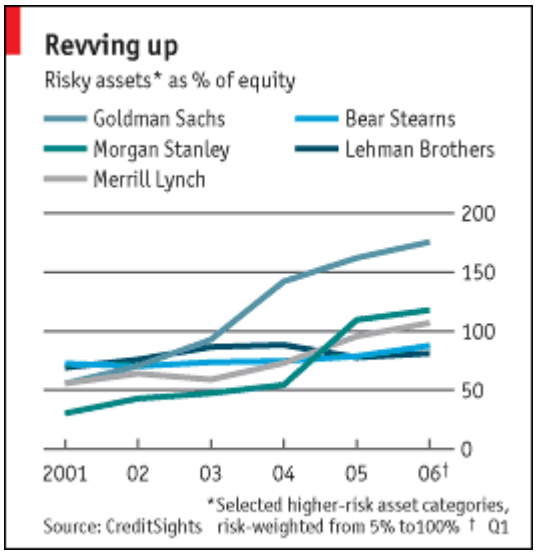
Drawing a similar inference about investment banks is not as easy. A falling share price suggests that the market thinks it increasingly likely that profits have peaked, but analysts forecast that they will keep rising. At worst, they say that increases in profits will not be quite so huge—which still sounds quite attractive. Clearly, the investment banks' expenses are rising. Witness the telling signs of opulence that appear in New York every time the banks are hot: nicer parties, smarter attire, exorbitant rents for summer houses in the Hamptons. Layoffs have ceased for the time being and firms are competing for bankers. Even so, investment banks are less carefree with their money than they were. Bankers' pay is tightly tied to revenue, so that it rises during good times, but less quickly than earnings, and falls when business slows.

Investment banks' biggest worry is the steady increase in interest rates. This has a direct impact, by increasing the financing costs of their trading operations and lowering the value of the bonds they hold. Less directly, it may lead to less underwriting and fewer buy-outs, as well as a slowing of economic growth. These concerns have been sharpened by the early dislike that the financial markets have taken to Ben Bernanke, who became head of the Federal Reserve at the start of February.

But none of this ought to be terrifying. Markets like to test new central-bank governors until they establish their credentials. Higher interest rates should hurt deals, but big mergers are being announced every week. Debt underwriting may have peaked, but it is still strong: all the investment banks are doing well in Europe, where companies are at last borrowing from capital markets, rather than sticking with commercial banks. And equity underwriting, which is more lucrative, could have a long way to run. Outside America, the market for initial public offerings has come alive. There are plenty of reasons why lights burn in Manhattan skyscrapers into the small hours.

The lack of harmony between growing earnings and declining share prices is most evident in the low valuations of leading firms—notably, the two stars of the moment. Lehman's shares trade at less than ten times expected earnings and Goldman Sachs's at nine times. Compare these with newspaper companies, under siege for their dim prospects, whose shares fetch 18 times earnings and soft-drink companies, at 20. Among the numerous sectors of the market, only residential-property companies have lower valuations, reflecting the steep climb in mortgage rates in recent months and clear signs that housing sales have cooled. Clearly, the market believes that investment banks' successful run cannot be sustained. Why?

Perhaps the best answer has less to do with obvious problems (of which there are few) and more with growing suspicions. Variables such as value at risk (a measure of how much banks stand to lose if markets turn against them) and the ratio of risky assets to equity (see chart) have been rising, suggesting that investment banks' returns have been souped up by trading with borrowed money. This is true not only of firms known to be big traders but also of those, notably Morgan Stanley, that had until recently been more reluctant.



Analysts are troubled by the possibility that they do not understand the trading operations of banks. Although traditional advisory and underwriting services have recently improved, trading has been the fount of profitability. The big investment banks contend that they know what they are doing: after all, they have long been in the business of managing and reducing risks for their clients. Investors worry, apparently, that their money might turn out to be the Wall Street wizards' insurance should this theory be wrong.

A rumour swept the markets in mid-June that Goldman Sachs had lost plenty in a derivative contract tied to market volatility. Although Goldman loses and (more likely) makes money all the time, people were rattled. “There may be enormous risks; we just don't know,” says David Hendler, of CreditSights, a research firm. And if you don't know, steer clear.

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About sponsorship

Hedge funds and the SEC

Still free

Jun 29th 2006 | NEW YORK
From The Economist print edition

A court strikes down new rules meant to regulate hedge funds

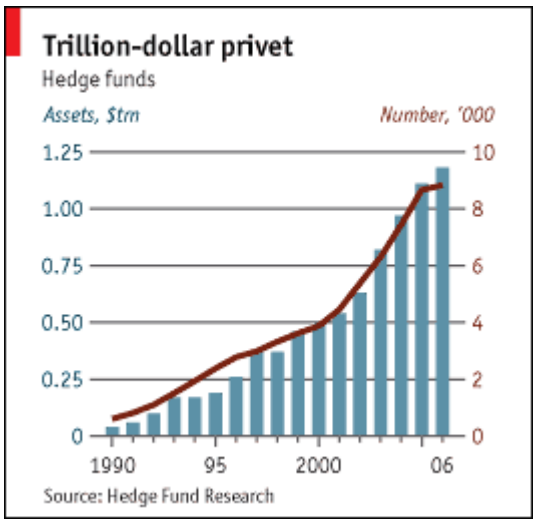
THIS is not an easy time for hedge funds. Although their managers still enjoy fantastic salaries, many are finding it harder to justify them. After years of spectacular returns, 2005 was unexceptional. This year has been mixed: they had a strong first quarter, but saw more than half their gains vanish in May. Worse, Congress has its sights on the industry.

On June 28th the Senate Judiciary Committee held hearings on hedge funds spurred by a series of lawsuits alleging that some funds were involved in rigging markets. The hearings came less than a week after a federal appeals court struck down an attempt by the Securities and Exchange Commission (SEC) to monitor the industry. Richard Blumenthal, attorney-general of Connecticut, home to many hedge funds, told the senators that this decision had created an unacceptable “regulatory void” that states may fill.

Until recently, hedge funds were largely unregulated. The theory was that, because their investors were rich and sophisticated, they could look out for themselves. But in late 2004, the SEC passed a rule that required hedge funds to register with the commission, to report basic information every year and to undergo routine inspections.

In part, the SEC had reacted to the industry's rapid growth. A decade ago hedge funds managed $257 billion. Today the world has more than 8,000 hedge funds, managing more than $1 trillion (see chart). Because hedge funds often borrow to boost returns, this may understate their influence. Their scale and the dizzying variety and opacity of their strategies make regulators worry that, should a hedge fund implode, it could damage the whole financial system. This fear is not unfounded: regulators remember a close shave with Long Term Capital Management, a hedge fund stuffed with Nobel laureates, in 1998.

Watchdogs are also concerned by the changes in the mix of hedge-fund investors, even though they are still mostly the preserve of the super-rich. Public and private pension money has started to flow into hedge funds. The idea that some of the retirement savings of teachers and firemen are invested in unregulated funds makes some regulators uneasy, however sophisticated pension-fund managers may be.



The court's decision was based on semantics. Under old rules, hedge-fund advisers were exempt from regulation if they had fewer than 15 “clients”. The SEC had long defined these to be the institutions whose money a hedge fund administered, rather than their individual investors. But the new rule defined clients as investors. This, said the court, was arbitrary. It struck down the rule.

The effect of this decision is unclear. Many hedge funds are likely to stay registered, to reassure institutional investors. And although the SEC may no longer examine individual hedge funds, even supporters of regulation admit that the commission lacked the manpower to police the industry effectively. The SEC's biggest loss, says John Coffee, of Columbia University's law school, is the “census information”—on assets, debt and the like—that might have improved its understanding of the hedge-fund industry.

Christopher Cox, the head of the SEC, has said that the agency will “re-evaluate” its options. It does not have many. An appeal to the Supreme Court, says Mr Coffee, would probably fail. So would attempts to tinker with the rules in the hope of satisfying the court on a second visit. Any regulatory push, therefore, is likely to be left to Congress. After this week's hearing, such an outcome does not seem far-fetched. Orrin Hatch, a Republican senator from Utah, called hedge funds the “Wild West” of America's financial system.

The hedge funds are ready for another fight. They claim to be forces for good because they bring liquidity to the markets and make them more efficient—arguments that regulators accept, by and large. They also argue (as industry lobbies are wont to do) that regulation would be too costly, especially for smaller funds.

Their tactics are not all defensive. Under the complicated law that governs how pension money is managed, investment funds that derive over a quarter of their assets from public, private and foreign pensions are held to strict standards of fiduciary duty, and fall under the oversight of the Department of Labour. Lobbyists for hedge funds want the threshold raised to a half and foreign and public pension-plan money removed from the cap. Maybe the year will turn out all right after all.

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European savings banks

Battles with Brussels

Jun 29th 2006 | FRANKFURT AND VIENNA
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The remaining protective rings around Europe's savings banks are under attack

LITTLE by little, European Union officials are chipping away at the privileges still enjoyed by savings banks in some member states. These are strongest in Germany, where public ownership is enshrined in law. Most other EU countries, with the notable exception of France, have privatised their savings banks.

A deal in 2004 between the European Commission and the German government, to atone for the bail-out of Bankgesellschaft Berlin, a stricken listed bank partly owned by the Berlin city government, requires that the bank be sold next year. The sale must be open to all buyers, public and private. The snag is that Bankgesellschaft Berlin owns Berliner Sparkasse, a savings bank. Under German law the *Sparkasse* name—popularly associated with a red S seen in every high street—can be used only by a public owner.

In mid-June the Berlin government suggested a compromise: allowing a private buyer to use the *Sparkasse* name for an interim period. The commission demurred and on June 27th said it would move to the next stage of legal action against Germany.

The commission is chasing savings banks elsewhere too. In June it opened an inquiry into tax-free deposit accounts offered in France exclusively by the post office and savings banks. And farther east, Erste Bank, by far Austria's biggest savings bank, is in hot water in both Brussels and Vienna over its *Haftungsverbund*, or guarantee association, which links it to 53 other savings banks. In Brussels Erste Bank is accused of breaking European law by counting these banks' capital as its own, though it owns only three of them. In Vienna it is charged with operating a cartel.

Erste Bank's scheme was designed, like similar ones in Germany, to replace public guarantees for banks, which are being phased out under pressure from the commission. It involves common risk-management and promises of support in time of severe difficulty. Austria changed its banking law in 2002 to accommodate the scheme, prompting Bank Austria, a private-sector bank, to file the two suits. A decision in Vienna is expected within a week. Erste Bank has already offered, should it lose, to make the *Haftungsverbund* more like a single concern by strengthening its grip on the savings banks. “That would be a Pyrrhic victory for Bank Austria,” says a person close to the case.

The European Commission has tended to refer such matters back to national governments. In 2004, because of German and Austrian pressure, new EU rules on bank capital left it to national regulators to decide how much to favour *Haftungsverbünde*. They may choose to treat loans between banks in a group as risk-free. This could save German savings and co-operative banks over €4 billion ($5 billion) in regulatory capital from January 1st next year, when the capital rules, known broadly as Basel 2, are due to be applied. A draft German law makes all this possible, at the national supervisor's discretion.

Rating agencies look kindly *on Haftungsverbünde*. Two agencies, Fitch and Standard & Poor's, are prepared to treat some of the groups, such as those formed around Bayerische Landesbank and Landesbank Hessen-Thüringen, two German public-sector banks, as single entities. Each member enjoys the same enhanced credit rating. Moody's, another agency, stops short of treating the groups as a single unit.

Nevertheless, no mutual-guarantee scheme can truly replace ownership. Even Erste Bank, which has the strongest such alliance, is trying to have it both ways by dominating without putting up the capital, says one risk analyst. But the Austrian regulator has raised no objection. The savings and co-operative banks are politically so important in Austria, Germany and France that common sense and market reality hardly count.

Even for the commission, privatisation is a step too far. It has dropped a case against the German state of Mecklenburg-Pomerania for stopping Stralsund, a town on the Baltic coast, from privatising its *Sparkasse*. Still, the German public-sector banks are under increasing pressure, even from their communal owners. Private investors are being offered a 27% stake in HSH Nordbank, a public bank. A new savings bank law in Hesse, another German state, presented this week, allows savings banks to take stakes in each other but excludes private buyers. It seems only a matter of time before Germany amends its banking law.

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Data security

Wired

Jun 29th 2006
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Outcry over America's tracking of international money transfers

THE sheer volume of data passing through the SWIFT network daily is mind-boggling: up to 12.7m messages about money transfers, bouncing between more than 7,800 banks and financial firms in over 200 countries. It is the broadest system of its kind for sending financial messages around the world quickly and securely. As one might expect, the data include the names and account numbers of those sending and receiving funds.

Hence this week's outcry at the revelation that American government agencies have been tracking messages sent via SWIFT for several years in the hope of hunting down terrorists. SWIFT says it was complying with subpoenas from the American government, had limited the data handed over and had told its senior committee (made up of central-bank officials) what was going on. Still, questions remain about who knew what when, as well as the legality of it all.

In private, bankers have expressed consternation at the snooping. The government of Belgium, where the SWIFT consortium is based, says it is investigating. The European People's Party, the centre-right group in the European Parliament, has called for a broader inquiry. The American Civil Liberties Union detects “abuse of power” by the Bush administration. Privacy International, a human-rights group in London, has lodged complaints in more than 30 countries in a bid to “paralyse” the Americans' effort. Simon Davies, its director, says it plans to file more.

George Bush and his senior advisers have already hit back. The president blasted the media for publishing details of the surveillance programme: a “disgraceful” move, he said, that did “great harm” to America. Therein lies the rub. Since the terror attacks of September 2001, the Bush administration has tried hard to cut off funding for terrorists. Through bodies like the Financial Action Task Force, America has pressed foreign governments to monitor financial transactions more closely. International banks are already required to file reports on suspicious activity, and are loth to criticise anti-terrorism efforts publicly, no matter how onerous.

Watching SWIFT means tracking a huge amount of data. Michael Turner of the Political and Economic Research Council, an American think-tank, says the closest parallels are the FBI's collection of data on suspected Communists during the 1950s and registration of Japanese-Americans during the second world war. But those cases “pale in comparison from a pure quantitative perspective,” he adds.

An industry representative suggests the Americans may have been forced to go to SWIFT after banks turned down their requests for information. “This is a delicate issue,” he says. “There's a degree of cloak and dagger and hush-hush involved.” So much for the hush.

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Credit derivatives

Making a stink

Jun 29th 2006
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One of the world's fastest-growing markets calls in the plumbers

OVER a year ago, a whiff of something nasty filled the nostrils of the world's financial regulators. It came, appropriately, from the back end of the credit-derivatives market, an unregulated asset class that was growing so fast that banks and hedge funds that dabbled in it had lost track of their trades.

In other markets where trading is private (rather than on an exchange), the problem might have seemed minor, involving thankless back-office tasks with monotonous names like matching and confirmation. But this time regulators saw a threat to the stability of banks, because of the popularity of credit-default swaps (CDSs), instruments that disperse lending risk around the financial system.

From almost nothing in 2000, trading in CDSs has ballooned to a notional value of $17 trillion at the latest count. That still leaves plenty of room to grow—interest-rate swaps, for example, are a $160 trillion market. But the CDS market, which allows banks and other financial firms to buy and sell protection against the risk of default by a borrower, punches above its weight. According to the International Monetary Fund, it is far bigger than the world's corporate-bond markets, it helps set the cost of borrowing by companies, and it might even reduce swings in the credit cycle.

For all its virtues, however, its practitioners have been hopeless at keeping tabs on their own trades, especially in the secondary market into which hedge funds have stormed. So last year regulators pressed the industry's 14 top dealers, which they do supervise, to put their rubber gloves on and sort out the plumbing.

Since then, bankers in a group known, like a ruling clique, as the “14 families” have laboured to Dyno-Rod a backlog of unconfirmed swap trades. Prodded by regulators, traders have shut themselves in hotel rooms for one weekend after another to sort out discrepancies with their counterparties. Some banks have even temporarily halted trading to allow the back offices to catch up with the sales staff.

The efforts appear to have borne fruit. The main dealers agreed to a June 30th deadline to cut the backlog of unconfirmed trades by 70% from their levels when they were first summoned by the Federal Reserve Bank of New York last September. “Everyone's already achieved that, as far as I know,” said Mark Davies, head of global credit trading at Bear Stearns, one of the firms.

Yet the smell has not quite gone away. Last month Alan Greenspan, former chairman of the Federal Reserve, startled bond traders at a dinner in New York with both a friendly pat and a slap on the wrist. Credit derivatives, he gushed, were “becoming the most important instruments I've seen in decades.” But he then went on to say how appalled he was at the “19th-century technology” used to trade credit-default swaps, with deals done over the phone and on scraps of paper. In London the Financial Services Authority, which has warned that unconfirmed trades could cause liquidity problems and accelerate a financial crisis, is partially mollified. “We've gone from a red [light] to an amber,” an official says.

Slicker with clicks

It goes without saying that an automated, transparent back-office system is a good way to bring new investors into the market and improve liquidity. There is also broad support for the way regulators have let banks find their own answers to the problems, rather than imposing rules.

But the supervisory oversight, as well as the solutions dreamt up by the big dealers, make some people nervous. They think there may be subtle changes in the $220 trillion market for over-the-counter derivatives, which is unregulated because it involves trades between private parties.

A good deal of the grumbling comes from hedge funds. Some of these, bankers say, have unsuccessfully resisted moves to automated trading, preferring to keep details of their trades to themselves and to play dealers off against each other.

There are other worries. At the centre of the complex trading infrastructure is a vast industry-owned utility called the Depository Trust & Clearing Corporation (DTCC), which the 14 dealers—ten of which have seats on its board—see as integral to automation (handily, it gave such users a rebate of $528m last year). The utility seeks to stitch together electronic platforms that stretch from traders' desks, through confirmation, to storing records of derivative contracts until they expire.

DTCC's prevalence has led to concerns that putting so much global information into storage in America may one day make the industry subject to American regulation, no matter where trades take place. The utility's Peter Axilrod believes this fear is unwarranted. He points to the light touch shown by supervisors so far.

Another fear is that DTCC might trample on private competitors as it moves into other areas of derivatives. When it began testing a system for recording initial agreements to trade last month, it described itself as a tap-dancing gorilla.

Such concerns are likely to loom larger now that the backlog of paperwork has been reduced. Of particular interest is whether DTCC will realise its ambitions to store hundreds of trillions of dollars' worth of credit, equity and interest-rate derivative contracts. This would be a hugely complex task: already it admits that its plans to warehouse CDS contracts are taking longer than expected. And the rest of the world might well worry that too much of the plumbing of a global market would be on American soil.

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Economics focus

A toll on the common man

Jun 29th 2006
From The Economist print edition

Why taxes on companies are bad for workers

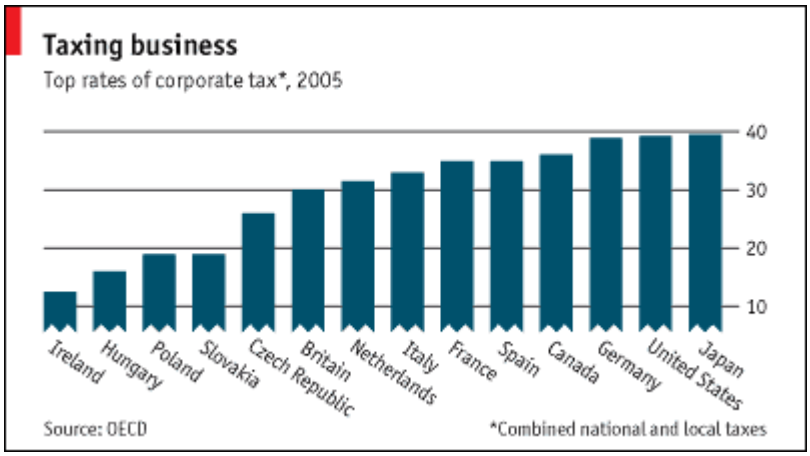
CUTTING taxes, as Germany's coalition government is learning, can be harder than raising them. On June 16th the country's parliament approved a big increase in value-added tax, to take effect in 2007. Trimming Germany's heavy corporate taxes is proving harder. German firms face tax rates of nearly 40%, the highest in Europe (see chart). The government wants to push them below 30%, to boost investment and discourage firms from moving to lower-tax countries, especially in central and eastern Europe. But the idea faces stiff opposition. “They're reaching into the wallets of the little people to give corporations tax relief,” says Renate Künast, parliamentary leader of the left-of-centre Green party.

Ms Künast's views are echoed by many politicians in many countries. There are few taxes politicians like more—and economists like less—than today's levies on companies' profits. Politicians much prefer to tax impersonal firms, which cannot vote, than workers, who can. America, for instance, has the second-highest rate of corporate-income tax in the OECD (behind Japan). Yet even George Bush's tax-cutting administration has not sought to lower it. To economists, in contrast, the notion that firms pay tax makes little sense: in fact, people do.

But which people, exactly? If corporate taxes are borne mainly by shareholders, left-wing politicians can plausibly claim that cutting them is a boon to the rich, because richer people own more shares (even though the far-from-rich own lots too, through their pension funds). But if the taxes are shifted to consumers through higher prices or to workers through lower wages, reducing them would benefit Ms Künast's “little people”.

Economists have been debating who pays corporate taxes for decades. In a classic paper in 1962, Arnold Harberger, an American economist, argued that if neither capital nor goods can cross national borders, the burden of corporate taxation falls squarely on the owners of capital. Neither workers nor consumers bear any of it. But nor does the burden fall solely on affluent shareholders. Mr Harberger pointed out that capital would shift between firms and non-corporate investments, such as partnerships or property. The tax's burden would be shared by all owners of capital, including farmers and homeowners.

This analysis has since been refined by many researchers (including Mr Harberger himself). Most now agree that workers do, in effect, pay some of the tax formally levied on companies. One route is through lower saving. Corporate-income taxes, like all taxes on capital, make saving and investment less attractive. Lower investment means a smaller capital stock, less capital per worker and hence lower wages. Several studies have found a negative link between corporate-tax rates and investment.



Globalisation sharpens this effect. Capital can now move easily from high-tax to low-tax countries. That implies less investment and lower real wages in high-tax countries, but gains for workers in low-tax countries. The effect ought to be bigger in small, open economies, where an infusion of foreign capital can quickly boost productivity, than in large, less open ones.

Around the world, corporate-tax rates have been falling. Twenty years ago, most rich countries had a top rate of over 40%. Today, none does. Small economies with low corporate-tax rates, from Ireland to Slovakia, have boomed thanks to huge foreign investment. Anecdotal evidence suggests that workers have gained as corporate taxes have fallen.

Oddly, there has been little empirical analysis of the size of this effect. In a new paper*, Kevin Hassett and Aparna Mathur, of the American Enterprise Institute, a free-market think-tank, try to fill the gap. They examine the relationship between corporate taxes and wages for manufacturing workers in 72 countries over 22 years. Their goal is to tease out whether differences in corporate-tax rates affect wages once other influences on pay, such as productivity and the power of unions, are taken into account.

The results are striking. On average, a 1% increase in the corporate-tax rate is associated with a 0.8% drop in wages over the next five years. And, just as theory would predict, the effect is bigger in smaller economies than in larger ones. The economists find that international tax competition matters too: their work suggests that a 1% cut in a neighbouring country's corporate-income tax pushes down wages at home by 0.5%. This suggests that corporate taxes have a huge effect on wages. At face value, it implies that if Germany cut its corporate-tax burden by 25%, as its government intends, wages ought eventually to rise by a fifth.

That is staggering—but almost certainly overstated. For one thing, the effect appears implausibly fast. In theory, the burden of corporate taxes shifts gradually from capital to workers as firms invest in low-tax countries. It is hard to believe that enough changes within five years to affect wages as much as Mr Hassett and Ms Mathur report. More likely, the strong negative link between corporate taxes and wages reflects the omission, or mismeasurement, of other things that affect pay.

But even if their precise figures look questionable, Mr Hassett and Ms Mathur make a point that politicians in Germany and elsewhere ought to heed. In today's world, high taxes on companies hurt the “little people” they are supposed to please.

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*“Taxes and Wages”: www.aei.org/docLib/20060315_TaxesandWages.pdf

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About sponsorship

Scientific publishing

Creative destruction in the library

Jun 29th 2006
From The Economist print edition

Free access to research is proving more expensive than hoped. But it is spreading, nevertheless

LIFE

PUBLISH or perish runs the adage. The publication of research is the bedrock of scientific careers and the foundation of grant applications. But for many years people have questioned the system's fairness.

The normal mechanism is that scientists offer the fruits of their research—often bankrolled by the taxpayer—for nothing to publishers. Those publishers then charge money to people who wish to read their journals. Publishers have been making handsome profits from this arrangement. But change is afoot. Open-access publishing, in which papers are freely available immediately upon publication, is sweeping the dusty corridors. The catch is that the sponsors of research will have to fork out more money to pay for it.

Opening up?

The new fashion is to be found on both sides of the Atlantic. In America John Cornyn, a Republican senator from Texas, and Joe Lieberman, a Democrat senator from Connecticut, recently introduced a bill that seeks to compel all federal government agencies “to develop public-access policies relating to research conducted by employees of that agency or from funds administered by that agency”. If it is passed, every American government outfit that commissions more than $100m-worth of research a year will have to make the results free to all-comers as soon as they are accepted for publication.

America's biggest sponsor of medical research, the National Institutes of Health, has already thrown its weight behind such a move. For the past year it has strongly encouraged the recipients of its grants to make their results available on a free archive, called PubMed Central, as soon as they are published elsewhere.

In Britain, meanwhile, the Wellcome Trust (the world's second-biggest medical-research charity), has

gone a step further. Rather than encouraging its researchers to deposit electronic copies of their findings with PubMed Central, it compels them to do so—although they have six months after publication in which to comply. The trust, which spent £483m ($879m) on research last year, also gives its grant holders extra money to pay the charges levied by publishers who already offer open-access publication, and is helping to develop a British version of PubMed Central.

Other arms of the British scientific establishment are involved, too. On June 28th three of the eight research councils that distribute government money to British scientists announced that, in future, any work they pay for will have to be published freely soon after being accepted for publication by a journal; the other five support the principle but are not in a position to enforce it.

Britain's Royal Society, the world's oldest scientific organisation, has also got in on the act. Like several other institutions that make at least some of their money from scientific publishing, the Royal Society had opposed open access on the grounds that standards might slip. If each article published brought additional revenue, an organisation might be tempted to run the unworthy as well as the worthy. But now the society has changed its mind, at least in part. On June 21st it launched a service that charges the authors of scientific papers a fee to post their work online as soon as it is accepted for publication by any of the society's journals. Until now, authors have had to wait for a year before their work became freely available.

The Royal Society's American counterpart, the National Academy of Sciences, is a convert, too. In 2005 its house journal, the *Proceedings of the National Academy of Sciences*, published 565 open-access papers, reflecting the fact that almost one in five authors asked (and paid) for their work to be made immediately and freely available. This figure has remained stable, according to Diane Sullenberger, the executive editor of the *Proceedings of the National Academy of Sciences*. The journal charges $1,000 per paper (although those working at institutions with a site licence pay $750) and it boasts not only that it complies with the National Institutes of Health public-access policy, but that it also extends access even further. It automatically deposits the final published version of all its papers, regardless of who paid for them, in PubMed Central, after six months, and also makes them free on its own website.

There are, however, a few thorns among the roses. Traditional publishers are often sceptical about the business models of their open-access rivals, and they sometimes have cause to be. The Public Library of Science (PLoS), an American organisation regarded by many as the flagship of the open-access movement, lost almost $1m last year. As a result, it is about to increase its charge from $1,500 per article to as much as $2,500, depending on which of its journals an author publishes in.

Undeterred, PLoS will, in August, launch an open-access online database called PLoS One. Unlike papers published in the main PLoS journals, those in PLoS One will not be assessed for their probable impact or level of interest before they are accepted. Instead, researchers will be able to comment on them through annotations and discussion threads. PLoS describes the project as “return[ing] control over scholarly publishing to the research community”. The database would be similar to the Los Alamos archive, an online repository of physics papers that has been running for the past decade.

BioMed Central, a British open-access publisher, has also increased its charges—from $500 to as much as $1,700 per article. It, too, has still to break even. Yet it received some good news this month. Thomson Scientific, a firm that evaluates the impact of journals, looked at citations made in 2005 of articles published between 2003 and 2004. Eleven journals published by BioMed Central received their first such assessment, and nine of them appeared in the top ten highest-impact journals in their fields. Whatever the traditional publishers might hope, open-access does not look in imminent danger of perishing.

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About sponsorship

Electronics

Shrinking wireless

Jun 29th 2006
From The Economist print edition

A proposal to make computer chips communicate without wires

THE miniaturisation of the components of computer chips has proved unstoppable. In each new generation, those components are smaller and more tightly packed than they were in its predecessor. Progress has been so rapid that chip designers are approaching apparently fundamental barriers to further reductions in size and increases in density. One of these is imposed by the need to wire the components in a chip together, so that they can exchange signals. But, in a miniaturised version of the shift to wireless communication in the macroscopic world, a group of researchers led by Alain Nogaret of the University of Bath, in England, think they can make chips whose components talk to each other wirelessly.

At present, the electronics that transmit and receive the radio waves used in wireless devices are too large to be used within individual chips. But Dr Nogaret believes he can overcome this. Last week he and his colleagues at three other British universities, another in Belgium and a research institute in France won the money to try to build such a device.

The researchers intend to use the standard lithographic techniques employed in chipmaking to coat a semiconductor with microscopic magnets. These magnets will generate local magnetic fields that point in opposite directions at different points on the chip's surface. Electrons have a property called spin that is affected by magnetic fields, and the team hopes to use an effect called inverse electron-spin resonance to make electrons passing through the chip emit microwaves.

The technique they are proposing is the reverse of the process in medical magnetic-resonance imaging. In MRI, the patient is placed in a strong magnetic field that causes some of his body's atomic nuclei, which act like tiny magnetised spinning tops, to align themselves with the field. These nuclei are then zapped briefly with a second magnetic field that knocks them out of alignment with the first one. The coils in the scanning apparatus detect these magnetic changes, which are used to build up a map of the part of the body being examined. After a few seconds, the nuclei realign themselves with the field, radiating small amounts of energy as heat or, more rarely, as radio waves.

In chips, Dr Nogaret proposes to use the spin of the electron rather than the spin of the atomic nucleus. Electrons flowing through the chip would “see” a magnetic field that flips from one direction to the opposite every few hundred nanometres (billionths of a metre). This is the equivalent of zapping a stationary object with an oscillating magnetic field of the sort used in MRI. The changing magnetic field would force the electrons to oscillate, too, but would not allow them to radiate heat. As a result, they would be forced to emit radio waves—or, rather, microwaves, which are similar but of shorter wavelength.

Dr Nogaret envisages great advances that would stem from the success of his work, and these are not confined to the possibility of packing components yet more tightly. In today's chips, the failure of a single connection can put the whole circuit out of action. This should not happen with a wireless system because it could be programmed to re-route signals. Manufacturers could thus relax their standards and produce chips that were cheaper than, but as reliable as, their predecessors.

The project will not be plain sailing. Generating microwaves powerful enough to transmit data reliably will probably involve stacking several layers of magnets and semiconductors together and encouraging the electrons in them to oscillate in unison. But if it works, a whole new wireless world will be opened up.

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About sponsorship

Homosexuality

Brothers in arms

Jun 29th 2006 | TORONTO
From The Economist print edition

Some men are gay because their mothers have already had many sons

RAY BLANCHARD, a researcher at Toronto's Centre for Addiction and Mental Health, was reviewing some data a few years ago when he noticed something odd: gay men seemed to have more older brothers than straight men.

Intrigued—and sceptical—he decided to investigate. He recruited 302 gay men and the same number of heterosexual controls and inquired about their families. How many siblings did they have, of what sex, and how had the births been spaced? How old had their parents been when they had had them? Dr Blanchard found that only one detail seemed to predict sexual orientation: the more elder brothers a man had, the more likely he was to be gay. Neither elder sisters nor younger siblings of either sex had any effect, but each additional elder brother increased his chance of being gay by about 33% from the population average of one man in 50.

It was a rather perplexing discovery. It implied either that being brought up with a lot of elder brothers affects a boy's sexual orientation, or that a mother's body is somehow able to keep count of how many sons she has conceived, and that this count affects the orientation of future children. Hard as it was to explain, though, the finding was replicated again and again, across different cultures, eras and even psychiatric groups.

Those who argued for a social explanation suggested that having lots of elder brothers makes a boy more likely to engage in same-sex play, and might also increase the chance he is a victim of sexual abuse. But, regardless of whether either of these conjectures is true, neither playing with other boys nor sexual abuse has been scientifically linked to homosexuality.

Anthony Bogaert of Brock University in St Catharines, Ontario, therefore decided to examine the other hypothesis—that the phenomenon is caused by something that happens in the womb. He has just published his results in the *Proceedings of the National Academy of Sciences*.

Dr Bogaert reasoned that if the effect were social, elder brothers would wield the same power even if they had not been born to the same mother. Lots of half- or step-siblings, or adopted brothers, for instance, would also cause their younger brothers to be gay. On the other hand, if the effect were really due to birth order, biological brothers would make their younger brothers more likely to be gay even if they did not grow up together; indeed, even if the younger boy grew up without any older boys around at all.

Dr Bogaert collected a new sample of several hundred men, this time specifically recruiting those who had grown up with “brothers” to whom they were not biologically related. He collected information on how long they had been reared with each sibling, as well as about biological siblings from whom they had been separated.

He found that only the number of biological elder brothers had an impact on a later-born boy's sexual orientation; non-biological siblings had no effect. This was true even when a boy had grown up surrounded by an enormous gaggle of non-biological elder brothers. By contrast, elder brothers raised in a separate household “influenced” their younger brothers' sexual orientation in exactly the same way as they would have done had they been living with them.

Like many of the best pieces of research, this one raises questions, as well as answering them. One is,

how does the mother's body keep count of how many sons she has conceived? A second is, how does that change the environment in the womb? A third is, how does that change affect sexual orientation? And a fourth is, is this an accidental effect, or has it evolved for some reason?

To these questions, Dr Bogaert has no answers, though in some cases he has his suspicions. He speculates that, for reasons as yet unknown, a mother's immune system takes note of the number of male offspring and that each succeeding male fetus is subjected to increased levels of antibodies. These somehow affect its development. Clearly, something strange is going on, because things other than sexual orientation are also affected by birth order. Boys with elder brothers are also likely to have larger-than-normal placentas while in the womb. And despite that apparent nutritional advantage (for a larger placenta should be able to draw more food from the mother's bloodstream), they are also likely to have lower birth-weights than would otherwise be expected.

Dr Blanchard, meanwhile, calculates that about one gay man in seven can chalk his orientation up to having elder brothers. But to the question of whether there is some evolutionary advantage for a mother who has many sons to include a gay one among them, neither he nor Dr Bogaert has an answer.

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About sponsorship

Animal behaviour

A stilted story

Jun 29th 2006
From The Economist print edition

Ants find their way home using pedometers

IF THERE were a Royal Society for the Prevention of Cruelty to Ants, Matthias Wittlinger of the University of Ulm, in Germany, would probably be top of its hate list. The reason is that Dr Wittlinger and his colleagues have, as they report in this week's *Science*, been chopping the feet off ants. And not only that. They have been making other ants walk around on stilts.

Saharan desert ants of the genus *Cataglyphis* have to travel long distances to discover food in their impoverished, sandy environment. How they find their way home once they have done so is a mystery. Ants in more temperate climates often lay down chemical trails, but *Cataglyphis*, apparently, does not. Like honeybees and ancient mariners, they can navigate by the sun, so they know the general direction in which to travel. But, also like ancient mariners (who knew their latitude, but not their longitude), such solar reckoning cannot tell them when to stop.

Dr Wittlinger, therefore, decided to investigate a century-old hypothesis that desert ants have internal pedometers—in other words, they count their steps out, and they count them back. When one total matches the other, they are home. To test this idea he trained his ants to walk from their nests to a feeding station through a ten-metre-long channel. When they had picked up the food, he caught them and made them return through a different channel, which also led to the nest. When they made this return journey, they began their characteristic nest-searching behaviour, quartering the ground in detail looking for the entrance, after travelling about ten metres.

Once the ants had mastered this trick, the experiment proper began. Some ants, when they arrived at the feeding station, had the ends of their legs amputated, to shorten their stride length. Others were fitted with stilts in the form of pig-bristles glued to their feet. Both lots were then returned to the feeding station, to make the journey home.

As predicted, the ants on stilts, whose stride-length meant their internal pedometers had not clicked

enough times, walked blithely past their nests, and were left stranded almost five metres on the far side before they started looking for the hole. Meanwhile, the poor stumped ants travelled only about six metres before they started their search.

The story, however, has a happy ending. Having proved his point, Dr Wittlinger returned both stumped and stilted ants to the nest and gave them a few days to recover. Then he let them out for another run. Now that they could re-count their outbound journeys, they were able to calculate the journey home correctly. Ants may not be very bright, but it seems they have a head for figures.

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About sponsorship

Heaven on earth

Positing paradise

Jun 29th 2006
From The Economist print edition

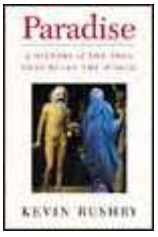
For 3,000 years people have tried to imagine what paradise might look like. Two new books trace the history of the hereafter

Mapping Paradise: A History of Heaven on Earth
By Alessandro Scafi

University of Chicago Press; 400 pages; $55. British Library Publishing; £35

Buy it at
Amazon.com
Amazon.co.uk

Paradise: A History of the Idea that Rules the World
By Kevin Rushby



Constable & Robinson; 272 pages; £18.99. To be published in America by Carroll & Graf in November

Buy it at
Amazon.co.uk

Bridgeman

WHERE do you find paradise on a map? To the modern eye, used to the cheap and functional cartography of roads and frontiers, the very question is absurd. Maps show real things, not imaginary ones. You might as well look for happiness in a telephone directory.

As Alessandro Scafi shows in his erudite history of the Christian effort to map paradise, pre-modern mapmakers focused on spiritual navigation, not the secular kind. They tried to portray time and space in a way that is still beautiful, but can seem baffling. Their maps showed God, history, and human woes and joys, often biblical ones. The Garden of Eden was a real place, just as Adam was a real man.

Such maps depicted paradise as imaginatively and confidently as they did earthly topography. The world was like a plate; paradise was up a mountain, across a sea, perhaps guarded by angels, maybe in China, or Armenia, or Abyssinia, or Mesopotamia. Christopher Columbus, encountering the Amazon river's freshwater, thought it must flow from paradise.

Mr Scafi's book illustrates beautifully (though, sadly, all too often in black and white) how Eden shifted from the centre of maps to the periphery, and ultimately to the margins. The Renaissance and the Reformation boosted mankind's intellectual and cultural self-confidence. Although belief in a long-ago Eden's literal existence survived, most agreed with Martin Luther that it had perished in the flood. Even pious mapmakers found it hard to reconcile the clues in the Bible (a place where four rivers rose) with the realities of physical geography. Paradise became not just inaccessible, but something out of this world.

Even today, on the fringes of Christianity and in popular journalism, there are people who claim to have found the Garden of Eden. It may not be paradise now (especially if it is a dusty and desolate corner of Iraq). But it jolly well was once. Mr Scafi tells this story well from the sublime start to the ridiculous end, with spectacular flourishes of art history and confident quotes from Latin, Greek and Hebrew. But the focus is tight; other cultures' heavenly ideas are barely mentioned.

Kevin Rushby's book, by contrast, starts earlier, spreads wider and ends later. His enjoyable and informative canter through three millennia of intellectual and religious history highlights the many ways, ingenious, beautiful, wrongheaded or mad, in which humans have tried to define paradise, seek it or, latterly, create it.

The idea predates Christianity, coming from ancient Babylon, where a *paradeiza* was an enclosure used for easy hunting. That idea of abundance, or “endless bacon” as Mr Rushby nicely puts it, is a persistent thread. It comes up again in the Muslim idea of flowing streams and plentiful virgins, though he notes that *huri* (Persian for nymph) may be a Koranic mistranslation of the Aramaic for “white raisin”.

Yearning for abundance alternates with the idea that real paradise is swapping earthly pleasure for something better. For Pythagoras, true happiness came from knowledge, in particular from the order and harmony of maths. He had a point. The loveliest architecture uses phi, the constant he derived from the proportions of a pentagram (the discussion on phi is a rare moment of truth in the otherwise nonsensical “Da Vinci Code”).

The third, darker, thread is that paradise means purging the world of unbelievers, sin, filth and so forth. That gets its first outing in the Book of Revelation, a lurid account of the apocalypse probably best read as an allegory of the individual Christian's journey to salvation. Millenarian sects, especially tiny ones, gleefully quote the text showing that only 144,000 people will be saved. All three threads weave in and out of human history. The Pythagoreans resurface whenever scientific and intellectual enlightenment glistens. Mr Rushby's account of the saintly John Tradescant's museum in 17th-century London, with its collection of natural wonders and curiosities from the newly discovered worlds of East and West, is gripping. So is the story of its shameful hijacking by the duplicitous Elias Ashmole. Visitors to the Ashmolean museum in Oxford may ponder the extraordinary unfairness: how many other “ambitious, ingratiating” social climbers have stolen so completely a hero's legacy?

Modernity, and the luxury it created (initially for a few, then for many) made earthly abundance seem within reach. The Pilgrim Fathers hoped for an earthly paradise without the sin and selfishness of the Old World. Philanthropists such as Robert Owen wanted that too, but without divine inspiration. His experiment only bankrupted him. Later attempts to build paradise on earth cost millions of lives.

The prospect of acquired perfection lies behind many big ideas and most bad ones. If you do the right thing, believe the right thing, suffer enough, love enough, work hard enough, kill enough of the wrong people or breed enough of the right ones—then you will end up in paradise. That is a great motivator, often with awful results.

Neither modern consumerism nor the back-to-nature sentiments that make people yearn for rural bliss get a good write-up from Mr Rushby. Trying to transcend our own imperfections, rather than eradicating those of others, is the best bet, he argues. Amen to that.

Mapping Paradise: A History of Heaven on Earth.
By Alessandro Scafi.
University of Chicago Press; 400 pages; $55. British Library Publishing; £35

Paradise: A History of the Idea that Rules the World.
By Kevin Rushby.
Constable & Robinson; 272 pages; £18.99. To be published in America by Carroll & Graf in November

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South Asia

Time of tribulations

Jun 29th 2006
From The Economist print edition

PANKAJ MISHRA, an Indian writer and literary critic, wants to understand why violent and angry countries are as they are. He wonders why so many have looked to religion and jingoism for a post-colonial national identity. In India, rabble-rousing Hindu politicians have incited massacres of thousands of Muslims. In Pakistan, military dictators and elected leaders, seeking fresh foot-soldiers, have trained thousands of jihadist guerrillas. In Afghanistan, several too-hasty efforts at modernisation have sparked popular conservative backlashes.

Mr Mishra, a precise observer and a subtle analyst, is keener to understand than to blame. India's dreadful politicians, he suggests, may be mostly motivated by a terror of slipping back into the nameless poverty from which they sprang. And if the West is partly responsible for the mess, says Mr Mishra, it also offers Asians good examples of how to end it.

Mr Mishra recounts how he too sought escape from poverty in India, but in books, which he devoured in filthy university libraries—while his fellow students launched careers in organised crime. His part in the wider drama established, Mr Mishra identifies himself with all manner of strugglers on the sub-continent: pathetic crowds outside the offices of Bollywood casting directors; Pakistani youths plucked from bored unemployment to wage global *jihad*; Afghan farmers hobbled by wounds from several holy wars.

Temptations of the West: How to be Modern in India, Pakistan, Tibet and Beyond
By Pankaj Mishra

Farrar, Straus and Giroux; 336 pages; $25. Picador; £16.99

Buy it at
Amazon.com
Amazon.co.uk

His eye is keenest in his homeland, the subject of more than half the book. Mr Mishra shreds the Hindu nationalists, purveyors of a religion cobbled together from folk beliefs in the 19th century, for the political purpose of opposing foreign rule. He reveals their contradictory ideas of caste and the imbecility of their world-view which is haunted by fears of the World Trade Organisation and the pope. In their rhetoric, they are as anti-America as al-Qaeda. Yet, at the same time, Hindu extremists seek to co-opt Western countries through mastery of their own scientific achievements. Mr Mishra discovers, in a secret laboratory hidden in a teak forest, Hindu extremists making dental powder out of cow's urine. But the nationalists' violence is no joke: 2,000 Indian Muslims were slaughtered in Gujarat in 2002 alone. In Kashmir the army, backed by every Indian government of the past decade, has murdered thousands of people in a failed effort to quell an insurgency that is rooted in legitimate grievance.

India is not shining, but its people do have the advantage—in violent and corrupt elections—of changing their government. That has rarely, or never, been the case in Pakistan, Afghanistan, Nepal and Tibet, where Mr Mishra also roams, which is one reason why he seems even less hopeful for the future of these peoples.

On India, in a thousand details—such as the grimace he catches on the face of a sycophantic businessman as a politician's bodyguard rinses curry-stained hands in his swimming pool—Mr Mishra salutes humanity's paradoxes and wit. On other countries, his reporting is thinner and so is his thinking. His chapter on Afghanistan contains the occasional factual error. His eagerness to blame America for all manner of ills is surprising, given his disdain for puerile analysis elsewhere. But this is a fairly small complaint against a very good and original book.

Temptations of the West: How to be Modern in India, Pakistan, Tibet and Beyond.
By Pankaj Mishra.
Farrar, Straus and Giroux; 336 pages; $25. Picador; £16.99

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About sponsorship

America's war on terror

The end of the high road

Jun 29th 2006
From The Economist print edition

IN HIS new book on the American jail at Guantánamo Bay, Joseph Margulies recounts the story of a prisoner who told his interrogators of plans to use bacteriological weapons. The man named many others involved, and before long his interrogators had confessions from 35 further prisoners, “page upon page of chilling, meticulously detailed admissions”. The problem is that the prisoners he is writing about here were not suspected members of al-Qaeda, but American soldiers. The questioning took place 50 years ago and the interrogators were North Korean.

Guantánamo and the Abuse of Presidential Power

Simon and Schuster; 322 pages; $25.

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Amazon.co.uk

The confessions were false and had been extracted after the Americans were subjected to extreme psychological torture. Mr Margulies, a lawyer who has represented some of the men at Guantánamo, describes what happened in Korea to illustrate how, in its eagerness to prosecute the “war on terror”, the current American administration has borrowed from some of its most ruthless past enemies, abandoning practices that had allowed it for decades to take the high road in the conduct of war and international affairs.

The Bush administration holds that the Geneva Conventions do not apply to the men in Guantánamo, Bagram or Abu Ghraib. During the Vietnam war, the North Vietnamese had refused to extend the protections of the Geneva Conventions to captured American pilots. Yet America decided to apply the conventions to captured North Vietnamese, “and never wavered”, Mr Margulies writes, noting that many of these North Vietnamese combatants did not wear uniforms—one of the reasons America has given for refusing to extend the Geneva Conventions to men seized in Afghanistan and elsewhere.

Guantánamo, according to Mr Margulies, was built to be “the perfect interrogation centre”. It was designed to create a sense of isolation. That meant denying prisoners access to lawyers for as long as possible; not telling them how long they would be held; censoring or withholding their letters; telling them their wives had died and that their lawyers were Jewish. The detainee was to believe that his only salvation lay in co-operating with his interrogators.

Advocates of these detention and interrogation policies say they are necessary to help the authorities hunt down al-Qaeda and prevent further terrorist attacks. But what if a suspect had no connection to al-Qaeda, or as Mr Margulies says, “What if he's a shepherd?” Or a cook or a driver for the Taliban, or a simple farmer who was turned over to the Americans by a neighbour who wanted to collect a reward? The author says that only 8% of the men at Guantánamo are accused of being members of al-Qaeda and more than half the inmates are not alleged to have engaged in hostile acts against America or coalition forces. Mr Margulies's writing is uneven and much of his material has already appeared in newspapers around the world. But in drawing all the previous reporting together in one place, and then adding further research and analysis (such as tracing the parallel with North Korea), Mr Margulies has written an important book.

He believes that America has lost its “moral compass”, as it did over the internment of Japanese-Americans during the second world war. Yet he is strikingly balanced in his conclusions. “It is pointless to impugn the motives” of those who drafted the detention and interrogation policies, he writes. “They did what they thought best.” In the wake of the recent suicides at Guantánamo, there has been an increase in the demands from around the world that the detention centre be closed, which the American government appears inclined to do. The debate over both the morality and the effectiveness of Guantánamo will not subside so easily, though. In years to come, Americans may look back on it as they

do on the internment of the Japanese-Americans. This book is a valuable starting point.

Guantánamo and the Abuse of Presidential Power.
Simon and Schuster; 322 pages; $25.

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About sponsorship

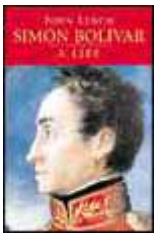
South American history

Bolívar lives

Jun 29th 2006
From The Economist print edition

AS JOHN LYNCH remarks on the first page of his book, Simón Bolívar is the inspirer of Hugo Chávez's authoritarian populism and of various "bolivarian" currents elsewhere. Mr Lynch wants to set the record straight about *el Libertador*, the man who did more than anyone else to free South America from Spanish rule. By and large he succeeds in this readable and up-to-date life, which will be the first resort of the curious for some time to come.

Simón Bolívar: A Life
By John Lynch



Yale University Press; 349 pages; $35 and £25

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This is not a revisionist work. Bolívar's virtues and strengths were many: an aristocratic self-confidence, *savoir vivre* and *savoir faire*. He inherited at an early age one of the largest fortunes in Venezuela and enjoyed spells in Madrid and Paris. He had presence and charm and a fine analytical intelligence. He wrote and spoke exceptionally well—even the shortest of his proclamations, an important genre of the time, have his unique stamp and style, and his most important speeches and letters deserve their frequent quotation. He was audacious, physically brave, extraordinarily tough. He was materially disinterested, freed his own slaves and gave away most of his wealth. Above all, he had tenacity and will, demonstrated over and over again in the face of numerous disappointments, difficulties and fatigues.

In all this Mr Lynch gives Bolívar his due, though he is also frank about some of his less attractive qualities. The nadir of his career was handing over his commander, General Francisco Miranda, to the Spanish on the collapse of the Venezuelan "First Republic". Bolívar was also responsible for some wholesale prisoner massacres; commanders in civil wars often are, and this struggle was essentially a series of civil wars. He was not particularly vengeful, but he could certainly be ruthless.

Bolívar has always been the subject of controversy, and it is possible to quarrel with some verdicts in this life. His disinterest certainly did not extend to his power and glory. Moreover, his rhetoric could be self-serving. He was an early master of offering the resignation that was not to be accepted, and towards the end of his life of variations on the theme of *après moi le déluge*. His constitution for Bolivia, by which he set great store, besides being a suspiciously authoritarian scheme in which a life president appointed his successor, was unworkable. Some will think Mr Lynch is too inclined to indulge the hero's "bias towards strong government" and too consistently dismissive of Bolívar's critics, who were by no means all "crass *caudillos*". General Santander, for example, may have had "a streak of vindictive cruelty", but when it came to their falling out he also had some good arguments on his side.

As Mr Lynch points out, independence was Venezuela's grandest moment and Bolívar its hero. The *culto de Bolívar* dates back at least as far as the dictatorship of Antonio Guzmán Blanco, who in 1883 presided over the elaborate centenary of the great liberator's birth, and was carried on fervently by Juan Vicente Gómez, Venezuela's ruler from 1908 to 1935. Like all such cults, it is riddled with anachronisms and distortions. Many Venezuelans now feel that enough is enough.

Simón Bolívar: A Life.
By John Lynch.
Yale University Press; 349 pages; $35 and £25

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About sponsorship

Silvio Berlusconi

The bane of Italy

Jun 29th 2006
From The Economist print edition

ALEXANDER STILLE'S new book on Silvio Berlusconi, the flamboyant former Italian prime minister, is neither a biography nor a work of investigative journalism. Its real value is that it represents the first attempt, in English at least, to recount in a readable fashion the story, not of Mr Berlusconi himself, but of Berlusconi-ism. That gives it a wide appeal, for, as its author argues persuasively, Berlusconi-ism is the extrapolation to grotesque extremes of a phenomenon that has gradually, and all too imperceptibly, become widespread.

Mr Stille is at his best when he describes how a man with a corporation with billions of dollars of debt succeeded in less than eight months, between 1993 and 1994, in turning himself into his country's leader. Along the way, he identifies various keys to Mr Berlusconi's success.

One was the unprecedented application of modern business methods to Italian politics. Mr Berlusconi's campaign organisers set up pay-as-you-go phone numbers so voters paid to listen to Mr Berlusconi and the stars of his television empire. Party candidates were required to spend the equivalent of $800 on a kit, similar to a salesman's kit, with a manual on how to communicate with voters. Advice included: “If you use a public toilet and it's dirty, clean it, otherwise those who come after you will think you dirtied it.”

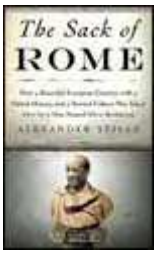
Then there was Mr Berlusconi's own exploitation of “anti-politics”, his depiction of himself as an outsider—a technique that allowed him to tap into a rich vein of support among mainly poor, rural and poorly educated voters who distrusted the institutions. Finally, of course, there was television. Mr Stille produces evidence to demonstrate its influence: “A study of female former Christian Democrat voters showed that an astonishing 75% of those who watched four or more hours of TV a day cast their ballot for Berlusconi, while only 40% of those who watched two hours or less did so.”

He acknowledges that his subject's rise to power (and, to an even greater extent, his return to power in 2001 after six years in opposition) was fostered by some of the specific characteristics of Italian society. Italians were, and are, largely unconcerned by Mr Berlusconi's conflicts of interest. Indeed, a survey during the 2001 election found that almost a quarter of voters thought that Mr Berlusconi's personal interests meant he would “govern the country better”. Nor are Italians overly concerned by the sort of illegality of which their former leader has been repeatedly accused by the judiciary. Above all, though, Mr Stille argues, Italy is a “weak democracy with few institutional checks and balances.”

Mr Stille's book is ill-timed: Mr Berlusconi has just been voted out of office and, at 69, his chances of returning are slim. But the Berlusconi formula, which Mr Stille sums up as “money + media + celebrity = political power”, is by no means applicable only to Italy. Some or all of the same basic elements are there in other politicians, particularly in America: in Arnold Schwarzenegger, Michael Bloomberg and Jesse Ventura, a former professional wrestler who became governor of Minnesota. “Silvio Berlusconi”, writes Mr Stille, “may appear at times a caricature, but in fact he is a reflection of ourselves in a fun-house mirror, our features distorted and exaggerated but distinctly recognisable.”

The Sack of Rome: How a Beautiful European Country with a Fabled History and a Storied Culture Was Taken Over by a Man Named Silvio Berlusconi.
By Alexander Stille.

The Sack of Rome: How a Beautiful European Country with a Fabled History and a Storied Culture Was Taken Over by a Man Named Silvio Berlusconi
By Alexander Stille



Penguin Press; 384 pages; $25.95

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About sponsorship

French cinema

Godard's world

Jun 29th 2006 | PARIS
From The Economist print edition

An eccentric exhibition by Jean-Luc Godard is worth a close look

A NEW show at the Pompidou Centre, devoted to the work of Jean-Luc Godard, the bad boy of French New Wave cinema, is divided into two parts: a retrospective of Mr Godard's films plays in one hall while the director himself has been given carte blanche to create an exhibition in a second space. So far, so good.

The connection is logical. Mr Godard's films have always been filled with paintings, quotations from books, and images from other films boldly referenced between invisible quotation marks. The exhibition was planned to consist of nine rooms, symbolic settings decorated with paintings, photographs, machines, books nailed to tables and video screens where films would play continuously. Each room would have sported a double title ("Murder [Montage]"), and the labyrinth they formed would have proposed a tour through the "Archaeology of Cinema".

Reuters

Je ne marche pas

Instead, the handmade models for these nine rooms—like a dolls' house built by Dr Caligari, a mad savant of German Expressionist cinema—occupy the centre of one gallery, while against the walls stand a few of the life-sized components they would have housed. (One is a huge revolving set of flash cards that do not revolve, but are hooked up to electricity meters supposedly installed by Electricité de France, a state-owned utility which, for Mr Godard, is a symbol of a controversial experiment in privatisation.)

On the south wall, a joint statement by the film-maker and the museum explains that the exhibition's original plan could not be realised because of "creative, technical and economic problems". Mr Godard's version of the statement, with the words "technical" and "economic" crossed out, hangs at the entrance.

As it stands, the exhibition is a B-movie remake of a Cecil B. DeMille super-production, consisting for the most part of video screens playing scenes from films. iPod-sized screens are ranged along the far wall of the first gallery, one of them showing a cat belonging to Mr Godard's collaborator Anne-Marie Mieville lounging on a bed. Laptop-sized screens play films by Mr Godard and Ms Mieville in the middle gallery, with the ghostly names of those never-to-be-built rooms pasted underneath. Larger monitors set up around the middle gallery display scenes from such classics as Orson Welles's unfinished "Don Quixote" (a tirade by the don against that Devil's invention, cinema).

In yet another gallery huge video screens show examples of today's cinema in a setting sparsely furnished with anonymous items out of a "Twilight Zone" version of *Better Homes and Gardens*. The scenes range from a big-budget Hollywood war film to hard-core pornography. A model train chugs back and forth between the first two galleries, recalling "The Arrival of the Train at La Ciotat Station", a Lumière Brothers film that is said to have terrified the audience at its first screening.

Despite the show's patent oddities, visitors are advised not to flee. The curious deconstructed form of the exhibition repays leisurely inspection and eventually yields up its hidden witticisms. The most delicious one: on the far wall of the third gallery an array of mobile phones is glued next to the words spoken by

Edgar Degas when his friend Claude Monet, circa 1900, showed him his new telephone—“I see how it works. It rings, and you have to get up.” Next to it is the silhouette of Giacometti's “Walking Man” and an untranslatable blast from the exhibition's famously solitary creator: “Je ne marche pas”. It could be Mr Godard's signature.

“Voyages en utopie: Jean-Luc Godard 1946-2006” is at the Centre Georges Pompidou, Paris, until August 14th

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About sponsorship

Barbara Epstein

Jun 29th 2006
From The Economist print edition

Barbara Epstein, editor, died on June 16th, aged 77

THOUGH every lowly hack nowadays likes to call himself an editor on his business card, the task of editing is no more highly regarded in journalism than in publishing. Being the sort of editor who wields power and influence at the apex of a newspaper is one thing. Being the person who just titivates others' copy, an unseen and apparently drab activity, is altogether different. It is hard to revere this sort of creature, whose highest accomplishment is—in the words of Elbert Hubbard, an American author, a century ago—simply to separate the wheat from the chaff, and to see that the chaff is printed.

Barbara Epstein was both sorts of editor—the one at the top and the one who separated the wheat from the chaff—and, to those outside the literary and intellectual world in which she lived, she was unseen: no bylines for her, no book tours, no interviews on talk-shows. But she was not in the business of publishing chaff. Intolerant of anything but the best, she would work with her authors to transform the dull into the shining, the opaque into the translucent, the flawed into the complete. And she was the very opposite of drab.

An attention to editing has accounted for a large part of the success of the *New York Review of Books*, the fortnightly that she helped to found in 1963 and then edited, with Robert Silvers, until just before her death. But even with less respect for language and logic, the magazine would have been remarkable.

It was born during the strike of New York's printers in the winter of 1962-63, which, among other things, stopped publication of the *New York Times*' book section and thus deprived America's publishers of their principal advertising vehicle. A group of book-lovers—Ms Epstein and her husband Jason, a publisher, and another couple, Robert Lowell and Elizabeth Hardwick—resolved to start a new magazine. It would review books: novels, scholarly books, books on art, music, literature, culture of all kinds and current affairs. It would be serious: the articles would be long, the layout severe and the trade-mark illustration was to be a spidery caricature by David Levine. It would also be political, indeed it would be a magazine of the left. The *Review* soon became sharply critical of the war in Vietnam, just as from the outset it has been critical of the war in Iraq. It seems safe to assume that George Bush does not curl up in bed at night with a copy of the *New York Review of Books*.

The first issue, which included articles by W.H. Auden, Elizabeth Hardwick, Mary McCarthy, Norman Mailer, Gore Vidal and Robert Penn Warren, pointed towards what was to come: a continuous stream of essays, usually discussing a book or books, and usually written by someone recognised as a writer, scholar or thinker of distinction. The list of contributors is formidable: Isaiah Berlin, Joan Didion, Susan Sontag, Edmund Wilson, etc, etc. For anyone with intellectual aspirations, few accolades are greater than the publication of a piece in the *New York Review of Books*.

Literary titans or not, authors had to get used to Ms Epstein's interventions. They did so willingly, for though the proofs would zing back and forth until at last she declared herself satisfied, her suggestions were almost invariably improvements. Not only could she see what was wrong with an article, she could also provide the missing idea that would make the piece work. In her care, the wheat grew.

The *Review* has always been a very New York publication—and, before September 11th 2001, to be New York was in parts of America a term of abuse. Its critics still say the *Review* is detached from the mainstream, and lacks influence. Perhaps it has indeed been less influential politically than, say, *Commentary*, the journal of the American Jewish Committee, which helped to incubate the creed of neoconservatism. But the *Review*'s influence is wider and more diffuse, and extends far beyond politics. Although it has something in common with the *Edinburgh*, *Westminster* and *Fortnightly Reviews*, its 19th-century forerunners in Britain, it was a new creation for America: an intelligent, intelligible publication that got the best minds to explore the world of ideas, bringing thought and weight to bear on the great issues of the moment.

Literary lion cubs welcome

This gravitas, however, should not be confused with solemnity or stodginess. With Ms Epstein wielding the quill pen, it was not an old, learned, respectable bald head that would edit and annotate the lines. It was a woman of striking beauty, with a sense of fizz as intense as the sparkle of the champagne she so enjoyed. She was a famous party-giver and her gatherings were a name-dropper's delight. Yet her friends' celebrity did not blind her to undiscovered talent. She would go to endless lengths to nurture and encourage the young. Many an unknown, such as Mark Danner, latterly of the *New Yorker* and Berkeley, started out as an assistant at the *Review*.

The 43-year reign of Ms Epstein and Mr Silvers—an “incredible old marriage”, she called it—was an enterprise of rare professional co-operation. He now becomes the *Review*'s sole editor. She will be remembered as the joint-creator of an American institution, a great exponent of an underrated skill, editing, and one of the first women to edit a serious publication.

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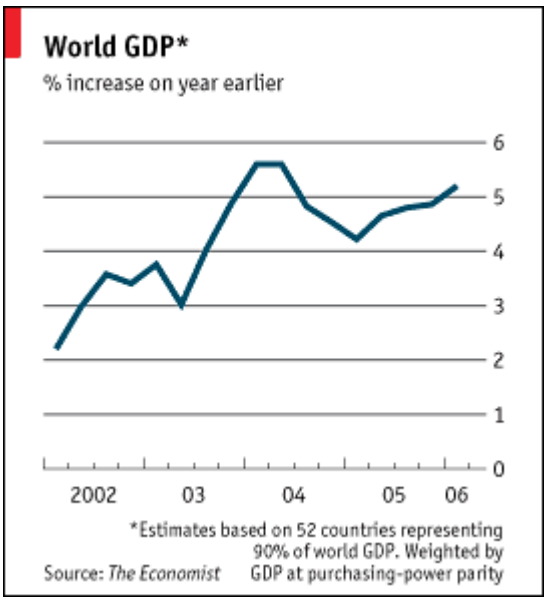
Overview

Jun 29th 2006
From The Economist print edition

Bond markets had a bad week as investors worried about inflation and tighter monetary policy. In America yields on ten-year Treasury bonds rose above 5.2%, their highest level in four years. Yields on ten-year German government bonds rose above 4%.



America's housing market sent mixed signals. Sales of new houses rose by 4.6% in May, the third consecutive monthly increase. But there was a fall in the number of existing houses sold in May, and the inventory of unsold properties rose to 6.5 months' worth of sales.

Consumer confidence in **America** perked up. After falling in May, the Conference Board's index of consumer confidence rose to 105.7 in June. Consumers' assessment of today's economic conditions worsened slightly between May and June, but their expectations for the next six months improved.

German business and consumer confidence is soaring. The Ifo index of business sentiment jumped from 105.7 in May to 106.8 in June, its highest level since February 1991. German businessmen are especially upbeat about business today and their expectations for the next six months have also improved. A widely watched index of consumer sentiment, prepared by GfK, a market-research firm, rose to its highest level since 2001.

House prices rose in **Britain** by 5.0% in the year to June, according to the Nationwide building society.

After rising by 1.4% in April, **Japanese** industrial production fell by 1.0% in May. The monthly decline was bigger than had been expected, but it left output 4.2% higher than a year before.

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About sponsorship

Output, demand and jobs

Jun 29th 2006
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate	
	latest	qtr*	2006	2007	latest		latest		latest	year ago
Australia	+ 3.1 Q1	+ 3.5	+ 3.2	+ 3.4	+ 0.6	Q4	+ 2.7	Q1	4.9 May	5.1
Austria	+ 3.0 Q1	+ 2.4	+ 2.2	+ 1.9	+ 8.4	Apr	+ 1.0	Mar	4.8 May	5.1
Belgium	+ 2.2 Q1	+ 3.2	+ 2.3	+ 1.9	+ 5.1	Apr	+ 0.8	Apr	12.0 May†	12.2
Britain	+ 2.2 Q1	+ 2.3	+ 2.4	+ 2.5	– 1.0	Apr	+ 4.0	May	5.3 Apr‡	4.7
Canada	+ 3.2 Q1	+ 3.8	+ 3.1	+ 2.8	+ 2.1	Mar	+ 4.4	Mar	6.1 May	6.9
Denmark	+ 4.3 Q1	+ 1.7	+ 2.7	+ 2.2	– 0.7	Apr	+ 2.1	Apr	4.5 May	5.9
France	+ 1.5 Q1	+ 2.2	+ 2.0	+ 1.9	– 0.3	Apr	+ 2.4	Apr	9.3 Apr	10.1
Germany	+ 1.4 Q1	+ 1.6	+ 1.8	+ 1.2	+ 4.8	Apr	– 1.0	Apr	10.9 Jun§	11.9
Italy	+ 1.5 Q1	+ 2.4	+ 1.3	+ 1.1	– 2.6	Apr	– 3.2	Mar	7.7 Dec	7.9
Japan	+ 3.8 Q1	+ 3.1	+ 2.9	+ 2.4	+ 4.2	May	– 1.5	Apr	4.1 Apr	4.4
Netherlands	+ 2.9 Q1	+ 0.7	+ 2.4	+ 2.0	+ 0.4	Apr	+ 4.0	Mar	5.8 May††	6.7
Spain	+ 3.5 Q1	+ 3.3	+ 3.2	+ 2.8	– 9.6	Apr	nil	Apr	8.3 Apr	9.5
Sweden	+ 4.1 Q1	+ 4.6	+ 3.4	+ 2.8	+ 6.2	Apr	+11.8	May	4.8 May†	5.2
Switzerland	+ 3.5 Q1	+ 3.8	+ 2.4	+ 1.7	+ 9.2	Q1	– 0.7	Apr	3.3 May†	3.7
United States	+ 3.6 Q1	+ 5.3	+ 3.4	+ 2.8	+ 4.3	May	+ 4.6	Apr	4.6 May	5.1
Euro area	+ 1.9 Q1	+ 2.4	+ 2.1	+ 1.7	+ 1.9	Apr	+ 2.8	Apr	8.0 Apr	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*									
Finland	+ 2.8 Q1	+ 1.6	na	na	+ 5.9	Apr	+ 6.8	Apr	7.6 May	8.3
Greece	+ 4.1 Q1	na	na	na	– 1.9	Apr	+ 6.0	Mar	9.7 Q4	10.4
Iceland	+ 5.0 Q1	na	na	na	na		na		1.3 Apr†	2.3
Ireland	+ 5.7 Q4	+ 7.6	na	na	+10.8	Apr	+ 5.3	Mar	4.4 May	4.4
Luxembourg	+ 5.7 Q4	na	na	na	+ 5.8	Mar	+ 9.7	Apr	4.3 Apr	4.2
New Zealand	+ 2.1 Q1	+ 2.3	na	na	– 2.9	Q4	+ 3.0	Q1	3.9 Q1	3.9
Norway	+ 5.4 Q1	+ 2.3	na	na	– 7.5	Apr	+ 6.3	May	3.7 May**	4.7
Portugal	+ 1.0 Q1	+ 1.8	na	na	– 1.7	Apr	+ 0.7	Apr	7.7 Q1†	7.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Feb-Apr; claimant count rate 3.0% in May.
§EU harmonised rate 8.2% in Apr. ††Mar-May. **Mar-May.

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About sponsorship

Prices and wages

Jun 29th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 3.0	Q1	+ 2.4	+ 2.9	+ 2.7	+ 7.9	Q1	+ 6.0	+ 4.0	Q1	+ 4.5
Austria	+ 1.7	May	+ 2.3	+ 1.8	+ 1.8	+ 3.7	May	+ 1.3	+ 2.8	May	+ 2.3
Belgium	+ 2.2	May	+ 2.5	+ 2.0	+ 1.8	+ 4.9	Apr	+ 3.3	+ 2.2	Jan	+ 2.3
Britain	+ 2.2	May*	+ 1.9	+ 2.0	+ 1.9	+ 3.0	May	+ 2.7	+ 4.4	Apr†	+ 4.6
Canada	+ 2.8	May	+ 1.6	+ 2.3	+ 2.2	+ 2.2	Apr	+ 1.6	+ 0.2	Mar	+ 3.6
Denmark	+ 2.0	May	+ 1.5	+ 2.0	+ 2.0	+ 5.7	May	+ 3.0	+ 2.9	Q1	+ 3.1
France	+ 2.1	May	+ 1.5	+ 1.8	+ 1.5	+ 3.6	Apr	+ 3.3	+ 3.3	Q1	+ 2.9
Germany	+ 2.0	Jun	+ 1.8	+ 1.7	+ 2.3	+ 5.0	May	+ 1.7	+ 2.2	Apr	+ 1.5
Italy	+ 2.2	May	+ 1.9	+ 2.1	+ 1.8	+ 6.6	May	+ 3.2	+ 2.6	May	+ 3.1
Japan	+ 0.4	Apr	nil	+ 0.5	+ 0.6	+ 3.3	May	+ 1.8	+ 1.3	Apr	+ 0.8
Netherlands	+ 1.3	May	+ 1.3	+ 1.5	+ 1.5	+ 5.5	Apr	+ 5.2	+ 1.9	May	+ 0.4
Spain	+ 4.0	Jun	+ 3.2	+ 3.5	+ 2.9	+ 6.5	May	+ 4.2	+ 3.0	Q1	+ 2.5
Sweden	+ 1.6	May	+ 0.1	+ 1.3	+ 1.8	+ 5.0	May	+ 2.4	+ 1.7	Mar	+ 4.2
Switzerland	+ 1.6	Jun	+ 0.7	+ 1.2	+ 1.2	+ 2.4	May	+ 0.3	+ 1.0	2005	+ 0.9
United States	+ 4.2	May	+ 2.8	+ 3.3	+ 2.4	+ 4.5	May	+ 3.6	+ 3.7	May	+ 2.6
Euro area	+ 2.5	May	+ 2.0	+ 2.1	+ 2.0	+ 5.4	Apr	+ 4.3	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	May	+ 0.8	na	na	+ 6.7	May	+ 2.3	+ 3.4	Q1	+ 4.0
Greece	+ 3.1	May	+ 3.2	na	na	+ 7.9	Apr	+ 4.4	na		na
Iceland	+ 8.0	Jun	+ 2.8	na	na	+ 7.1	Jun	+ 4.2	+ 8.7	May	+ 6.6
Ireland	+ 3.9	May	+ 2.4	na	na	+ 0.6	May	– 2.2	+ 3.8	Q4	+ 4.6
Luxembourg	+ 3.1	May	+ 2.4	na	na	+ 5.4	Apr	+10.1	+ 4.5	Mar	+ 2.5
New Zealand	+ 3.3	Q1	+ 2.8	na	na	+ 7.2	Q1	+ 4.2	+ 3.3	Q1	+ 2.5
Norway	+ 2.3	May	+ 1.6	na	na	+19.8	May	+ 9.2	+ 3.6	Q1	+ 4.2
Portugal	+ 3.0	May	+ 1.8	na	na	+ 5.8	May	+ 3.7	+ 0.1	Apr	– 1.8

*RPI inflation rate 3.0% in May. †Feb-Apr.

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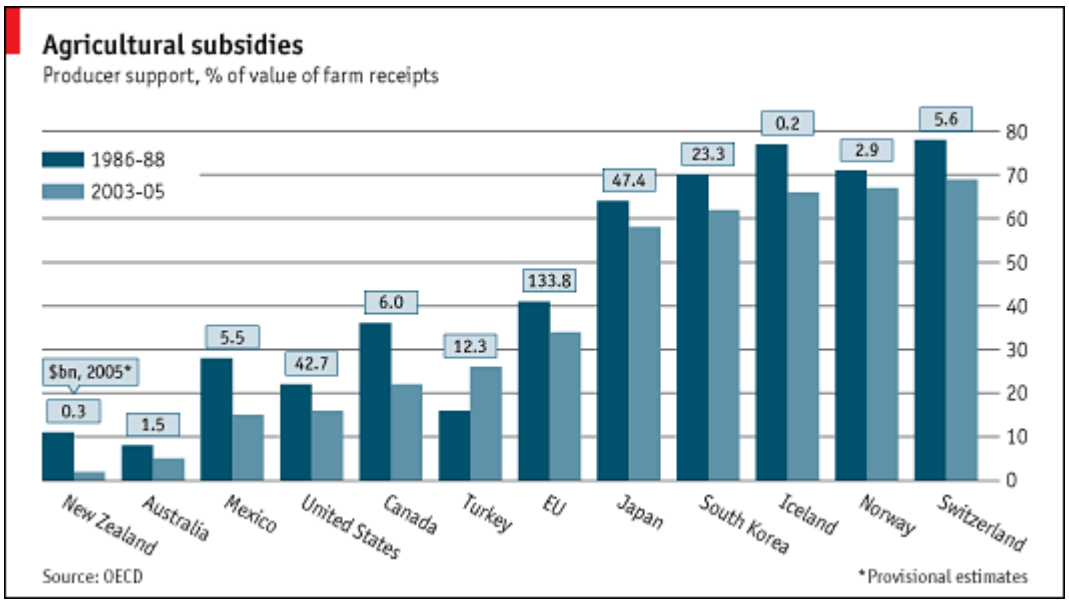
Agricultural subsidies

Jun 29th 2006
From The Economist print edition

Farmers are propped up by consumers, who pay more for their food than the world price, and by taxpayers, who finance direct payments to agriculture. These transfers have generally fallen as a share of total farm receipts since the late 1980s, but they are still large. In 2005 the European Union lavished $134 billion on its farmers, well ahead of the United States, which provided $43 billion.



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Money and interest rates

Jun 29th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jun 28th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 9.5	+10.4	Apr	6.04	5.66	5.82	5.83	5.10	6.94
Britain	+ 5.4‡	+11.8	May	4.70	4.75	4.83	4.73	4.21	5.82‡
Canada	+ 8.7	+ 5.8	Apr	4.31	2.48	4.46	4.65	3.87	5.70
Denmark	+13.8	+13.2	May	3.05	2.20	3.68	4.08	3.10	5.29
Japan	+ 4.4	+ 1.4	May	0.24	0.02	0.80	1.93	1.15	2.03
Sweden	+ 0.4	+11.9	Apr	2.23	1.48	3.23	3.98	3.00	3.97
Switzerland	+ 1.4	+ 3.3	May	1.50	0.75	2.00	2.83	1.96	2.73
United States	+ 1.7	+ 4.7	May§	5.48	3.33	5.27	4.73	3.99	6.14
Euro area†	+ 9.8	+ 8.8	Apr	3.06	2.10	3.57	4.05	3.14	4.67

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. §New series for broad money supply. Benchmarks: US 30-year 5.28%, Japan No. 280 1.91%. Central bank rates: US fed funds 5.00%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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About sponsorship

Stockmarkets

Jun 29th 2006
From The Economist print edition

Market indices

	Jun 28th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	4,909.2	5,318.2	4,708.8	+ 0.5	– 7.7	+ 4.3	+ 3.5
Austria (ATX)	3,575.0	4,344.4	3,324.1	+ 1.8	–17.7	– 2.5	+ 3.5
Belgium (Bel 20)	3,585.8	3,987.3	3,445.1	+ 0.7	–10.1	+ 1.0	+ 7.3
Britain (FTSE 100)	5,678.6	6,132.7	5,506.8	+ 0.2	–18.1	+ 1.1	+ 6.9
Canada (Toronto Composite)	11,332.3	12,487.3	10,904.3	+ 2.0	– 9.2	+ 0.5	+ 4.3
Denmark (OMXCB)	337.7	395.5	325.0	+ 0.3	–14.6	– 8.2	– 2.5
France (SBF 250)	3,370.4	3,755.6	3,244.2	+ 0.3	–23.2	+ 2.1	+ 8.4
France (CAC 40)	4,774.0	5,312.2	4,615.4	nil	–31.0	+ 1.2	+ 7.5
Germany (DAX)*	5,456.9	6,140.7	5,292.1	– 0.8	–32.3	+ 0.9	+ 7.2
Italy (S&P/MIB)	35,515.0	38,765.0	34,850.0	nil	–29.1	– 0.5	+ 5.6
Japan (Nikkei 225)	14,886.1	17,563.4	14,218.6	+ 1.7	–61.7	– 7.6	– 6.2
Japan (Topix)	1,527.5	1,783.7	1,458.3	+ 1.5	–47.0	– 7.4	– 6.0
Netherlands (AEX)	423.8	478.0	412.9	– 0.7	–39.6	– 3.0	+ 3.1
Spain (Madrid SE)	1,215.1	1,318.5	1,156.8	+ 0.2	– 7.8	+ 5.1	+11.6
Sweden (Affarsvarlden Gen)	289.7	333.7	275.2	– 0.6	–27.6	– 1.3	+ 6.5
Switzerland (Swiss Market)	7,431.9	8,122.1	7,154.9	+ 0.1	–11.7	– 2.0	+ 3.5
United States (DJIA)	10,973.6	11,642.7	10,667.4	– 1.0	– 6.4	+ 2.4	+ 2.4
United States (S&P 500)	1,246.0	1,325.8	1,223.7	– 0.5	–18.4	– 0.2	– 0.2
United States (NASDAQ Comp)	2,111.8	2,370.9	2,072.5	– 1.4	–58.2	– 4.2	– 4.2
Europe (FTSEurofirst 300)†	1,272.3	1,405.6	1,238.7	– 0.3	–25.4	– 0.3	+ 5.9
Euro area (FTSE Euro 100)†	1,079.7	1,198.7	1,050.0	– 0.4	–30.4	– 0.9	+ 5.3
World (MSCI)‡	1,273.4	1,406.3	1,243.9	– 0.5	–12.1	+ 1.2	+ 1.2
World bond market (Citigroup)††	626.6	648.4	612.1	– 1.2	– 6.0	+ 1.0	+ 1.0

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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About sponsorship

Trade, exchange rates and budgets

Jun 29th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Jun 28th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Jun 28th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2006‡
Australia	− 11.7	Apr	− 40.6	Q1	− 5.6	− 5.0	114.7	117.8	1.37	1.31	2.49	1.72	1.18	+ 0.9
Austria	− 1.2	Apr	+ 0.5	Dec	+ 0.1	+ 0.1	105.3§	105.7	0.80	0.83	1.45	–	0.69	− 1.9
Belgium	+ 13.2	Apr	+ 6.6	Dec	+ 2.0	+ 2.0	107.1§	107.6	0.80	0.83	1.45	–	0.69	− 0.4
Britain	−126.3	Apr	− 57.4	Q4	− 2.7	− 2.7	99.3	100.9	0.55	0.55	–	0.69	0.47	− 3.4
Canada	+ 57.6	Apr	+ 31.8	Q1	+ 2.2	+ 1.5	128.3	117.8	1.13	1.23	2.04	1.41	0.97	+ 2.2
Denmark	+ 8.5	Apr	+ 5.3	Apr	+ 2.5	+ 2.3	106.3	105.7	5.95	6.17	10.8	7.46	5.12	+ 3.3
France	− 28.0	Apr	− 32.6	Apr	− 1.8	− 1.4	107.9§	108.5	0.80	0.83	1.45	–	0.69	− 2.9
Germany	+188.7	Apr	+109.3	Apr	+ 3.8	+ 4.0	109.4§	110.1	0.80	0.83	1.45	–	0.69	− 3.1
Italy	− 18.2	Apr	− 28.5	Apr	− 1.6	− 1.5	107.5§	108.0	0.80	0.83	1.45	–	0.69	− 4.2
Japan	+ 80.7	Apr	+162.7	Apr	+ 3.6	+ 3.4	81.3	87.0	116	110	211	146	–	− 5.2
Netherlands	+ 39.0	Apr	+ 42.3	Q1	+ 5.8	+ 5.7	108.0§	108.4	0.80	0.83	1.45	–	0.69	− 0.5
Spain	− 99.9	Apr	− 88.9	Mar	− 7.3	− 7.4	105.6§	106.9	0.80	0.83	1.45	–	0.69	+ 1.1
Sweden	+ 20.1	May	+ 23.2	Q1	+ 6.5	+ 6.2	97.9	94.5	7.38	7.83	13.4	9.24	6.34	+ 1.7
Switzerland	+ 7.8	May	+ 50.2	Q4	+13.0	+12.3	106.4	106.4	1.25	1.28	2.27	1.56	1.07	− 0.2
United States	−814.7	Apr	−808.5	Q1	− 6.9	− 6.9	84.4	85.9	–	–	1.82	1.25	0.86	− 3.6
Euro area	+ 2.2	Apr	− 39.2	Apr	− 0.3	− 0.2	118.3	114.6	0.80	0.83	1.45	–	0.69	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 7.1	Apr	+ 5.4	Apr	na	na	108.7§	109.2	0.80	0.83	1.45	–	0.69	+ 2.2
Greece	− 36.8	Apr	− 21.7	Apr	na	na	104.7§	104.9	0.80	0.83	1.45	–	0.69	− 3.0
Iceland	− 1.8	Apr	− 3.1	Q1	na	na	101.8**	101.3	76.5	65.5	139	95.9	65.8	+ 2.0
Ireland	+ 37.4	Apr	− 3.9	Q4	na	na	113.1§	114.0	0.80	0.83	1.45	–	0.69	− 0.3
Luxembourg	− 4.9	Mar	+ 3.6	Q4	na	na	107.1§	107.6	0.80	0.83	1.45	–	0.69	− 1.7
New Zealand	− 4.8	May	− 10.1	Q1	na	na	117.7	136.9	1.68	1.43	3.05	2.10	1.44	+ 4.6
Norway	+ 55.1	May	+ 50.2	Q1	na	na	111.1	110.2	6.31	6.55	11.5	7.91	5.43	+ 18.5
Portugal	− 22.8	Mar	− 16.9	Apr	na	na	105.1**	106.1	0.80	0.83	1.45	–	0.69	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, April average. ‡OECD forecast. **IMF, February average.

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The Economist commodity price index

Jun 29th 2006
From The Economist print edition

2000=100

	Jun 20th	Jun 27th*	% change on one month	% change on one year
Dollar index				
All items	165.8	168.8	- 7.2	+ 26.5
Food	133.9	135.5	- 1.7	+ 5.2
Industrials				
All	207.1	211.8	-11.4	+ 51.9
Nfa†	159.0	161.3	- 1.0	+ 22.3
Metals	233.3	239.3	-14.7	+ 66.8
Sterling index				
All items	136.6	140.3	- 4.1	+ 26.0
Euro index				
All items	122.0	123.9	- 5.0	+ 21.3
Yen index				
All items	176.9	182.0	- 3.7	+ 33.8
Gold				
$ per oz	568.65	593.30	-10.3	+ 35.9
West Texas Intermediate				
$ per barrel	68.92	71.99	+ 0.1	+ 23.6

*Provisional. †Non-food agriculturals.

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Foreign direct investment

Jun 29th 2006
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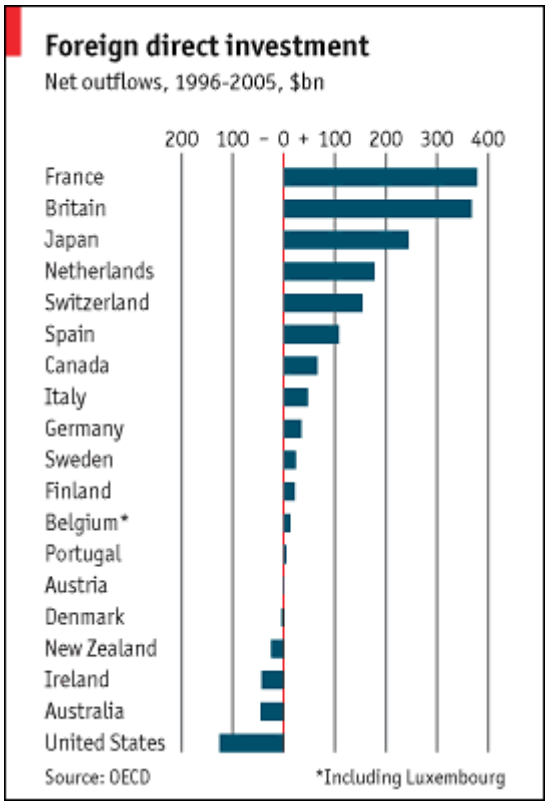

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Overview

Jun 29th 2006
From The Economist print edition

China's foreign reserves increased to $925 billion at the end of May.

Industrial output in **Venezuela** grew by 21% in the year to March. In **Argentina** it rose by 6% in the 12 months to May.

In **South Africa** consumer-price inflation picked up to 3.9% in the year to May.

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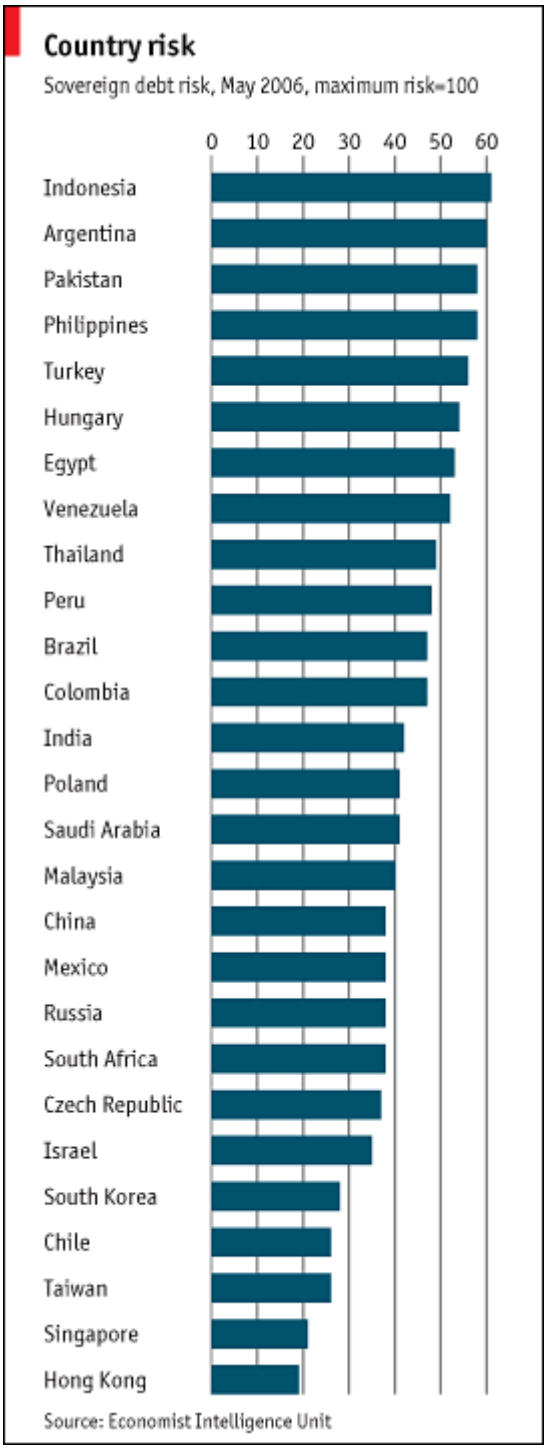
Country risk

Jun 29th 2006
From The Economist print edition

Lenders need to gauge whether governments will renege on their commitments. A new set of ratings from the Economist Intelligence Unit, a sister firm, provides a guide to this danger. Iraq, the riskiest, has a rating of 90, whereas Sweden, the safest, is rated 8. Among the countries in the table, Argentina and Russia have both defaulted on their debt in the past ten years. But Russia's oil money means that it is much less risky than Argentina today.



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Economy

Jun 29th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.3	Q1	+17.9	May	+ 1.4	May	+118.1	May	+160.8	2005	925.0	May
Hong Kong	+ 8.2	Q1	+ 7.0	Q1	+ 2.1	May	−13.1	May	+20.7	Q1	126.5	May
India	+ 9.3	Q1	+ 9.5	Apr	+ 5.0	Apr	−41.0	May	−13.3	Q4	156.7	May
Indonesia	+ 4.6	Q1	+ 0.2	Mar	+15.6	May	+31.6	Apr	+ 3.0	Q4	40.8	Apr
Malaysia	+ 5.3	Q1	+ 4.7	Apr	+ 3.9	May	+26.4	Apr	+19.9	Q4	75.2	Apr
Pakistan	+ 8.4	2005†	+19.3	Sep	+ 6.2	Apr	−10.7	Apr	− 4.8	Q1	11.5	Apr
Philippines	+ 5.5	Q1	−13.9	Apr	+ 6.9	May	− 3.6	Apr	+ 2.9	Mar	18.1	May
Singapore	+10.6	Q1	+10.6	May	+ 1.1	May	+32.7	May	+36.1	Q1	128.9	May
South Korea	+ 6.1	Q1	+11.6	May	+ 2.4	May	+18.7	May	+ 8.9	May	224.7	May
Taiwan	+ 4.9	Q1	+ 8.6	May	+ 1.6	May	+10.1	May	+18.1	Q1	260.9	May
Thailand	+ 6.0	Q1	+ 7.2	Apr	+ 6.2	May	− 3.7	May	+ 0.4	Apr	55.5	Apr
Argentina	+ 8.6	Q1	+ 6.0	May	+11.5	May	+10.2	Apr	+ 6.7	Q1	21.2	Apr
Brazil	+ 3.4	Q1	− 1.9	Apr	+ 4.2	May	+44.6	May	+12.7	May	63.4	May
Chile	+ 5.1	Q1	+ 0.9	Apr	+ 3.7	May	+14.2	May	+ 0.8	Q1	17.4	May
Colombia	+ 5.2	Q1	− 1.8	Apr	+ 4.0	May	+ 1.1	Mar	− 1.9	Q4	14.5	May
Mexico	+ 5.5	Q1	− 0.8	Apr	+ 3.0	May	− 3.8	May	− 1.2	Q1	78.4	Apr
Peru	+ 3.6	Apr	− 1.5	Apr	+ 2.2	May	+ 5.7	Apr	+ 0.7	Q1	13.3	Apr
Venezuela	+ 9.4	Q1	+21.0	Mar	+10.4	May	+34.8	Q1	+28.1	Q1	23.7	Apr
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 5.3	May	−11.1	Q4	+ 2.2	Q4	22.1	May
Israel	+ 5.2	Q1	+ 2.7	Apr	+ 3.5	May	− 8.1	May	+ 4.4	Q1	28.2	May
Saudi Arabia	+ 6.2	2005‡	na		+ 2.4	Apr	+134.3	2005	+90.7	2005	24.0	Apr
South Africa	+ 4.0	Q1	+ 0.1	Apr	+ 3.9	May	− 5.5	Apr	−11.7	Q1	21.5	May
Czech Republic	+ 7.4	Q1	+ 3.6	Apr	+ 3.1	May	+ 1.7	Apr	− 3.4	Q1	30.8	May
Hungary	+ 4.6	Q1	+ 6.8	Apr	+ 2.8	May	− 3.1	Apr	− 8.0	Q4	21.8	May
Poland	+ 5.2	Q1	+10.2	Apr	+ 1.2	May	− 2.6	Apr	− 4.4	Apr	46.4	May
Russia	+ 5.5	Q1	+10.6	May	+ 9.5	May	+132.3	Apr	+92.0	Q1	239.3	May
Turkey	+ 9.5	Q4	+ 7.1	Apr	+ 9.9	May	−47.5	Apr	−26.9	Apr	59.8	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.6	Q1	+ 5.5	Apr	+ 4.7	May	− 2.6	Mar	− 1.5	Apr	2.2	Apr
Latvia	+13.5	Q1	+ 0.4	Apr	+ 6.5	May	− 3.3	Apr	− 2.1	Apr	2.6	Apr
Lithuania	+ 8.1	Q1	na		+ 3.6	May	− 3.7	Apr	− 1.8	Apr	4.0	Apr
Slovakia	+ 6.3	Q1	+ 8.1	Apr	+ 4.8	May	− 2.8	Apr	− 4.5	Feb	16.2	Apr
Slovenia	+ 5.1	Q1	+ 0.6	Apr	+ 3.2	May	− 1.6	Apr	− 0.3	Apr	8.3	Mar

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Jun 29th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 28th		Dec 30th 2005	
	Jun 28th	year ago	Jun 28th	% a year		one week	in local currency	in $ terms
China	8.00	8.28	14.5	3.00	1,723.3	+2.6	+41.1	+42.4
Hong Kong	7.77	7.77	14.1	4.67	15,742.7	+0.5	+5.8	+5.6
India	46.4	43.6	84.2	6.30	10,129.7	+0.9	+7.8	+4.7
Indonesia	9,341	9,718	16,964	12.98	1,272.1	−1.6	+9.4	+15.3
Malaysia	3.68	3.80	6.69	3.93	906.9	+1.4	+0.8	+3.4
Pakistan	60.2	59.7	109	9.20	9,434.2	−6.6	−1.3	−2.0
Philippines	53.6	56.0	97.3	8.00	2,066.1	+0.4	−1.4	−2.4
Singapore	1.60	1.69	2.90	3.50	2,350.8	+0.9	+0.1	+4.2
South Korea	958	1,027	1,739	4.57	1,238.7	+0.9	−10.2	−5.2
Taiwan	32.7	31.6	59.3	1.78	6,540.9	+3.8	−0.1	+0.5
Thailand	38.5	41.4	69.9	5.40	666.8	+2.6	−6.6	−0.4
Argentina	3.09	2.90	5.61	10.00	1,632.3	+3.3	+5.8	+3.5
Brazil	2.23	2.35	4.06	15.18	34,834.0	+0.8	+4.1	+8.9
Chile	549	579	998	5.04	9,678.0	+0.1	+5.1	−2.0
Colombia	2,635	2,330	4,785	6.13	7,070.8	−6.0	−25.7	−35.5
Mexico	11.4	10.8	20.7	7.02	18,101.8	−0.3	+1.7	−5.1
Peru	3.27	3.25	5.93	4.60	7,930.7	+1.5	+65.1	+73.4
Venezuela	2,634§	2,621§	4,784	10.27	30,590.8	+0.5	+50.0	+47.3
Egypt	5.76	5.79	10.45	8.84	42,640.3	−2.2	−23.0	−23.2
Israel	4.48	4.57	8.14	5.65	797.8	−3.7	−3.6	−1.1
Saudi Arabia	3.75	3.75	6.81	5.06	13,145.3	+3.3	−21.3	−21.4
South Africa	7.23	6.69	13.1	7.65	20,211.5	−2.2	+11.7	−2.0
Czech Republic	22.7	24.9	41.2	2.26	1,321.0	+0.5	−10.3	−2.6
Hungary	224	205	406	6.75	20,175.2	+5.2	−2.9	−7.1
Poland	3.24	3.36	5.89	4.23	40,124.1	+7.1	+12.7	+13.2
Russia	27.1	28.7	49.2	11.50	1,414.0‡	+3.9	+18.5	+25.6
Turkey	1.61	1.34	2.93	24.40	33,207.1	−1.6	−16.5	−30.0
EM (MSCI)*	1.00	1.00	1.82	na	708.4	+1.4	+0.3	+0.3
EMBI+†	1.00	1.00	1.82	na	361.1	−1.0	−2.0	−2.0

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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